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The Rating of Land Values

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The Rating of Land Values

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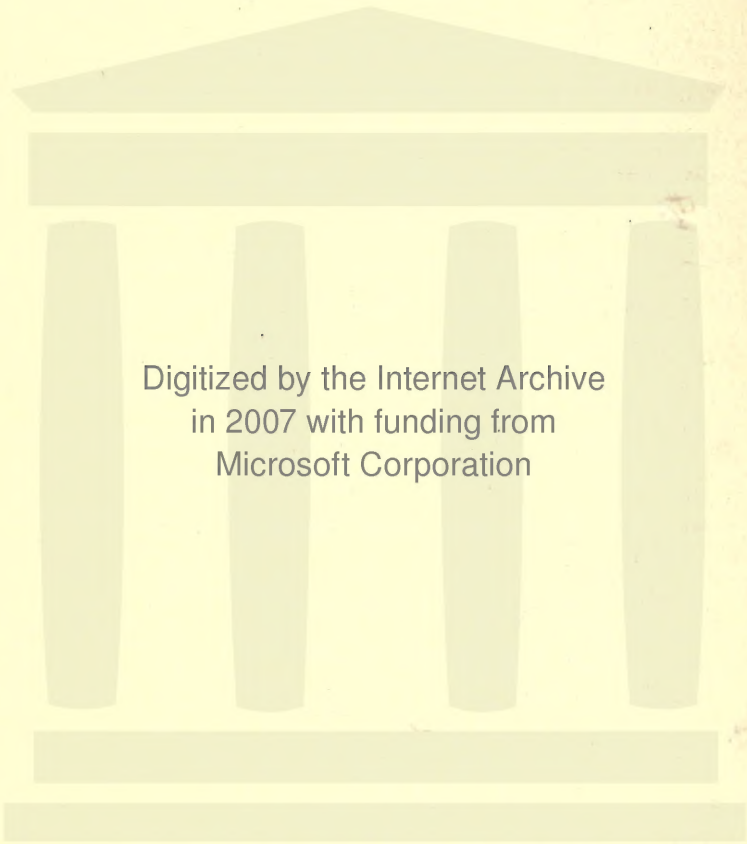
PREFACE

THIS essay is an attempt to reduce to order a collection of notes made at intervals during the past three or four years. It is published in the hope that it will be of interest to those who are endeavouring to find a practical solution of a very difficult problem.

The especial thanks of the author are offered to Mr. E. J. Harper, the Statistical Officer of the London County Council, who has been good enough to read some of the proof sheets, and whose valuable criticism has led to the correction of many errors, and to a reconsideration of some portions of the work. It must not, however, be assumed that Mr. Harper shares the views expressed in this essay.

2, Garden Court, Temple,
January, 1907.



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The Rating of Land Values.

INTRODUCTION.

THE phrase "Rating of Land Values" (or "Taxation of Land Values") is suspected by landowners to mean confiscation of property. To many other people, by constant repetition, it has become a magic phrase, like "Open Sesame," with the help of which they hope one day to restore to the Commonwealth the treasure stolen from it by generations of ground landlords. The phrase is used here as a convenient expression denoting those proposals for the reform of our rating system which possess the common quality of involving the separate assessment of land and buildings. No practical purpose would be served by tracing the origin and development of these proposals; but for the purpose of ascertaining our present position it is necessary to review briefly the very recent history of the movement. When the late Royal Commission on Local Taxation was appointed in 1896, advocates of the rating of land values, and particularly the two bodies which had become specially identified with the movement, the London County Council and the Corporation of Glasgow, took advantage of the opportunity and argued their case before the Commission, giving valuable evidence in support of it. The majority of the Commissioners were unable to

assent to the proposals[1] so laid before them, or to any proposals of a similar character; but a distinguished minority, Lord Balfour of Burleigh, Lord Blair Balfour, Sir Edward Hamilton, Sir George Murray and Mr. James Stuart, signed a "Separate Report on Urban Rating and Site Values," in which they develop and recommend a scheme for the separate assessment and rating of land.[2] This Report was published in 1901. The following year a Bill based on the recommendations of the Commissioners was introduced in the House of Commons by Mr. Charles P. Trevelyan, but the motion for the second reading was easily defeated (February, 1902). The next year Dr. Macnamara introduced another Bill, differing in some details, which also failed to secure a second reading, though by an adverse majority of only 13 votes (March, 1903). And so, for the time being, ended this phase of the movement.

In the Autumn of 1902 a large number of Municipal and Rating Authorities met in Conference for the purpose of discussing the subject; and after the failure of Dr. Macnamara's Bill, they—or a Committee of delegates appointed by them—produced a new and

1. "The proposal of the London County Council was set forth in a series of resolutions which were explained and defended before us by the late Mr. Costelloe. The Council did not officially formulate a complete scheme for giving effect to their proposal. But such a scheme was put before us by Mr. E. J. Harper, at that time Assistant Valuer to the Council, who gave evidence in his personal capacity, but informed us that his scheme had been on a former occasion forwarded by the Council for the consideration of the Government." Royal Commission on Local Taxation, Separate Report on Urban Rating and Land Values, Section vi. Another scheme was put before the Commission by Mr. (now Lord Justice) Fletcher Moulton.

2. The signatories of the Report say "We feel bound for the reasons we have explained to condemn unhesitatingly all the schemes which have been put before us in connexion with the rating of site values." At the same time, the only substantial difference (though a very important one) between the scheme recommended in the Report and the scheme put forward by Mr. Harper lies in the treatment of existing contracts. Mr. Harper's scheme interfered with existing contracts; the scheme recommended in the Report does not.

entirely different scheme. Their plan was embodied first in Mr. Trevelyan's Bill of 1904, and again (altered in one or two particulars) in Sir John Brunner's Bill of 1905. Both these Bills, supported as they were by an immense number of rating authorities in all parts of the United Kingdom, were read a second time, but, being private members' Bills, and the Government declining to render assistance, they went no further. Finally, on the 27th February of this year (1906), after the change of Government, a Deputation from the Rating Authorities waited on the new Ministers and handed in 518 petitions presented by different local bodies. Mr. Asquith, in replying to the Deputation, explained the absence of all mention of the matter in the King's Speech on the ground of the complexity of the subject and the need of time for consideration, but he assured them that the Government "were in hearty sympathy with the object of the movement, and as time and opportunity served would do everything in their power to put that object into legislative effect." [1]

The above-mentioned Bills were intended to apply to England and Wales only. In consequence of the different rating system of Scotland it has been thought necessary to deal with that country separately, and a Scotch Bill has been presented to Parliament this year, has been read a second time and has been referred to a Select Committee.[2] The case of Ireland has not yet been considered, or at any rate has not been put into a Bill.

This bare summary will give some idea of the amount of work which has been crowded into the last few years.

1. *Times*, 28 February, 1906.
2. The Committee reported December 1906. The recommendations are :—(1) that the Bill be not further proceeded with; (2) that a measure be introduced making provision for a separate valuation of land in the counties and burghs of Scotland, and that no assessment be determined upon until the amount of that valuation is known and considered.

It will be observed that, so far as England and Wales are concerned, four Bills were introduced in four successive years, and that the last two, which differ in design and principle from the first two, were the more successful in a Conservative House of Commons. Yet, in spite of these successes, it must be admitted that the difficulties of the problem are still before us. It would be easy to obtain any number of resolutions and petitions in favour of the principle of rating land values; but as soon as there is any attempt to grapple with difficulties there is vital difference of opinion, and it is hardly too much to say that at the present moment there is no general assent, even among the friends of the movement, to anything beyond the separate valuation of land. It is sometimes said that almost any scheme will do to begin with, since it can be altered and amended afterwards. But we cannot try experiments with the taxation of land, for it is the change from one system of taxation to another which occasions all the hardship. If we once start upon a road it will be well-nigh impossible to turn back, and therefore we should study the country to be traversed very carefully before we set out. In the following pages I have attempted a brief survey of the country and of some of the roads which have been suggested. I am concerned primarily with England and Wales, though I believe it possible that in the end the same scheme will be adopted both in England and in Scotland.[1]

1. This was the view of the Commissioners who reported in favour of the separate rating of site values. See Royal Commission on Local Taxation, Final Report for Scotland, p. 49 : "The conclusions set forth in our Separate Report on Urban Rating and Site Values in England and Wales should in our opinion be applied to Scotland without any modification in principle."

THE INCIDENCE OF RATES

CHAPTER I.

The Incidence of Rates.

Before a rate is levied in any district an assessment is made of the annual value [1] of all the immovable property in the district—that is, of the lands, buildings, mines, railways, etc., including certain movable things, such as some kinds of machinery which are let with and as part of an immovable structure. After the assessment has been made each spending authority in the district estimates the probable amount of its expenditure during the coming year (or half year), and then calculates the number of shillings and pence which must be demanded in respect of each pound of rateable value in order to make up the sum required. Thus the "rate in the pound" is fixed; and the sum of the rates in the pound levied by the various local spending authority is called "the rates." This last term, however, is often used to denote the total amount paid in respect of a property, and it is very convenient to use it in this sense. Generally (in England) the local authority looks for payment of rates to the *occupier* of rateable property, and has a remedy against him alone; and as between a landlord and tenant it is usual in a tenancy agreement to provide that the tenant shall pay the rates. There is, however, one wide exception to this rule. Under a system called

1. The annual or "rateable" value of property is defined in the Parochial Assessments Act, 1836, to be "the rent at which the same might reasonably be expected to let from year to year free of all usual tenants' rates and taxes, and tithe commutation rent charge, if any, and deducting therefrom the probable annual cost of the repairs, insurance, and other expenses, if any, necessary to keep it in a state to command such rent." Certain classes of property are assessed to some rates at less than their full annual value.

"compounding" the owner of properties of small value may be rated instead of the occupier, either by agreement or by order of the local authority. In this case the owner pays the rates in the first instance, and then collects them from his tenants—that is to say, he increases, or tries to increase, his rents by the amount of the rates—and a certain percentage deduction is allowed to him to cover the cost of collection. Rates assessed on flats also are usually paid by the owner in the first instance. Indeed what I have called the "exception" may fairly be called the rule, for in the case of the greater proportion (in number though not in value) of hereditaments, rates are paid in the first instance by the owner.[1]

But it matters comparatively little what the law is, or who pays in the first instance. There may be some truth in the saying that a tax tends to stick where it falls first, but we know that a tax on tea or on sugar, though paid in the first instance by tea and sugar merchants, does not remain with them, but is soon shifted on to the consumer, and there is no certainty that the person who pays the rate collector is the person who ultimately bears the burden of the rates. Indeed, it is clear that the person who pays the rate collector cannot in all cases bear the whole burden. In the case of small houses the owner pays the rate collector; in the case of larger houses the occupier pays the rate collector. But houses bordering on the dividing line compete with one another, and therefore the incidence of rates must be substantially the same in both cases, otherwise occupiers of the one class of houses would have an immense advantage over occupiers of the other class.

We speak of rating and taxing *things*, of rating land

1. Perhaps some three-quarters of the total number of occupiers do not pay their rates directly. Select Committee on Town Holdings, 1891, Q. 955.

and buildings, and of taxing tea; but *persons*, not things, pay rates and taxes. A rate assessed on property falls—or if we must use the Latin word, is incident—on one or other of the persons who are, or have been, interested in the property, either on the occupier, or on the owner, or possibly on past owners; or in some degree on all of these persons. The question is—does the occupier, because he pays the rates, succeed in obtaining an equivalent reduction of rent and in so transferring the burden to the owner.[1] In cases where owners pay the rates in the first instance, the question is whether they can raise rents and so transfer the burden to occupiers. It is not a question of law made by Governments, but of economic law. Of course an occupier may be the owner of his house, but even in this case a question arises. When a man buys a house he may give a less price for it than he would have given if there were no rates to pay, and thus he may succeed in leaving the burden of the rates, or part of it, with the owner from whom he purchases. If the occupier is a lessee for a term of years at a fixed rent, it is clear that any unexpected *increase* in the rates during the

1. The word owner has not a precise meaning. In the simplest case of a tenancy there is one owner who is a freeholder, and there is an occupier who rents the house. But there may be, and frequently are, many owners of a single house. This is especially the case in London and other towns where the leasehold system of land tenure prevails: the freeholder grants a building lease at a fixed ground rent, usually for 99 years; the lessee erects a building, and then in most cases leases the whole property to an occupier either for the whole term of the lease or for any less term; this person may hold for a time and then sub-let to another lessee, who again may sublet, and so on until at the end of the 99 years the land reverts to the freeholder, and everything built on it falls into his hands. Each of these lessees is an owner for the term of his lease, and benefits by any increase in the value of the property during his term. The enormous increase in the value of land in the West End of London which accrued during the last century has hitherto been enjoyed mainly by lessees, though eventually the whole of it will fall into the hands of the representatives of the original freeholders. A complicated case would be quite easy to deal with if we could determine the incidence of rates in the simplest and most general case where there is one owner and an occupier from year to year or from week to week.

continuance of the lease and occupation must fall on him, for he has to pay a larger sum to the rate collector and he pays the same rent as before.

In this quicksand everyone who sets out to reform our rating system soon finds himself sinking. It is essential that we should find some answer to these questions; for until we do so it is impossible to judge of the equity of our present rating system and useless to suggest reforms. In the preface to his "Reports and Speeches on Local Taxation," 1872, Mr. Goschen stated that he considered "the question of the incidence of rates as between owner and occupier" to be "the most important point in the whole controversy respecting Local Taxation." Ever since that time, and largely in consequence of a view expressed by Mr. Goschen himself, the question has been the subject of dispute among political economists. The uncertainty has paralysed all efforts of reform, and for that reason the Royal Commission on Local Taxation invited the leading authorities on the subject to express their opinions in writing for the guidance of the Commission. A sort of examination paper was set, and the replies to the questions asked are published as part of the evidence before the Commission.[1] They were afterwards reviewed by Professor Edgeworth in a series of articles in the *Economic Journal*.[2] Happily, though there is still some dissent, the majority of the experts are in substantial agreement.

An exhaustive examination of this tedious and difficult question is impossible in a work of this kind. The short account which follows is not put forward as being new (though I must myself be responsible for it), but as expressing a view for which there is very strong authority.

1. Royal Commission on Local Taxation. Memoranda chiefly relating to the classification and incidence of Imperial and Local Taxes. [c—9528.]

2. *Economic Journal*, vol. x.

It deals only with urban rates, and chiefly with rates paid in respect of dwelling houses.

Beneficial Rates.

Economists divide rates into two parts: beneficial rates and onerous rates. Part of the rates paid in respect of a property are said to be merely payment for services rendered to the occupier, such as the cleaning, lighting and repairing of his street, or the removal of dust from his house. These are called beneficial rates, and it is argued that they are not a tax any more than a gas bill or a coal bill is a tax. The remainder of the rates are said to be onerous because the money raised by them is spent on objects not directly beneficial to the occupier; on the relief of the poor, for instance, or on the education of other people's children. This is a sound distinction if it is properly understood, but the way in which it is often expressed seems to me very misleading.

All expenditure out of the rates, except perhaps expenditure on the relief of the poor, is, or ought to be, beneficial to some class of ratepayers. The point is that a rate which is wholly beneficial to one ratepayer may be onerous or partly onerous to another. A water rate is as good an example as can be found of a beneficial rate—in local taxation accounts it is not regarded as a rate at all, but as a trader's charge—yet since the charge for water is in most places roughly proportional to rent the occupier of a highly-rented house probably pays far more for his water per gallon than the occupier of a cheap house;[1] that is to say, the rich man is compelled to assist his poorer neighbours to pay for their water. And so it is with all other rates: the smaller the absolute amount paid the greater will be the benefit in proportion to payment.

1. To a certain extent this is corrected in the case of a water rate, for the rate is usually regressive, that is the rate in the pound is higher for small than for large houses.

Descending the scale from large payments to small payments, there must be a point at which the local authority renders to the ratepayer direct services equal in value to all the money he pays. Below this point ratepayers are in receipt of assistance from the richer members of the community, since the benefits they receive are such as could not possibly be bought by the money they pay.

At first sight it would seem that local taxation must fall with crushing weight on the poor. A man earning twenty or twenty-five shillings a week in a large town sometimes pays one-third of his income in rent, and therefore it would seem—and it is often stated—that he must pay about one-ninth of his income in rates. But this overlooks the fact that such a rent almost always includes the rates. The rateable value of a small house is rent, less rates, less a large allowance for repairs (in London one-quarter of rental value). Taking all these facts into account the proportion of gross rent which goes in rates, in a district where the rates are 6s. 8d. in the pound will be not one-third but about one-fifth. So that if a workman earning twenty shillings a week pays five shillings a week for his house, only about one shilling of this will go to the rate collector. And consider what the workman gets in exchange for this shilling a week: the cleaning, lighting and repairing of his street and the removal of dust from his house; protection for his property; education for his children; libraries, museums, parks and bands; baths, wash-houses, hospitals and cemeteries—which are partly paid for out of the rates; if necessary, the benefit of free meals for his children attending school, and the benefit of the machinery established by the Unemployed Workmen Act. He must confess that he gets value and far more than value for his money.

With this ratepayer who contributes one shilling a week to the common fund, compare the occupier of a house rated at £150, who pays one pound a week to the same fund, and consider which of these two gets the most out of the fund. It may be a difficult question, but at least it can be argued that the poorer man gets as much as the richer man though he pays very much less.

If then we are going to divide rates into beneficial rates and onerous rates we must be quite clear about what we mean. It is true that part of the money paid in rates by an occupier is spent in making his place of residence more pleasant and beneficial to him, in doing for him what he would choose to do for himself, and that this payment cannot be regarded as a tax, and cannot lower rents any more than a gas bill lowers rents. But it is very difficult to say what proportion of an occupier's total payment is spent in this way. In dealing with the poorer classes of ratepayers we must be especially careful. All that they pay (and a great deal more) is spent for their direct benefit, but it may be that they are paying more than they can afford to pay and more than they would choose to pay if left to themselves: if so, they are making an onerous payment. To put it shortly, we must consider the collection of beneficial rates separately from the expenditure of the money raised. In cases where the amount collected from a house equals the amount expended on the house and its inhabitants, the tendency of the collection of the money to lower rents is more or less balanced by the tendency of the expenditure of the money to raise rents; *i.e.*, the rent is not lowered at all, and the payment is made really as well as apparently by the occupier, but is a payment for services rendered and cannot be regarded as a tax. In cases where the amount collected exceeds the amount spent (generally the case of large houses), the excess payment is

onerous. In cases where the amount collected from a house is less than the amount spent on it and on its inhabitants, rates tend actually to raise rents. It must be remembered, however, that in the last case, and to some extent in the first case also, we are dealing with tenants of very limited incomes, whose rent-paying capacity is not increased by the benefits conferred on them, and that even though the amount demanded from a tenant may be much less than the money spent on him, yet the payment may be so much deducted from the necessaries or common luxuries of life, and therefore, in practice, onerous. The question how far rates actually raise rents will be discussed more at length in a later chapter.

Onerous Rates.

A rateable property in a town usually consists of two parts—of land and of a building erected on the land. The property is assessed as a whole, but part of the assessment represents land value and part represents building value. Consequently—though no such distinction is present to the mind of the ratepayer—part of the rates paid on the property are paid in respect of land value and part are paid in respect of building value. In order to examine the incidence of onerous rates we must deal with rates paid in respect of land value separately from rates paid in respect of building value.

The value of building land is given to it by its position. Occupiers are willing to pay a higher rent for one site than for another because there is some advantage in occupying the one rather than the other. It is this relative advantage which creates rent. If all sites offered equal advantages to occupiers, then since the quantity of land which may be built on is unlimited no site would have more than an agricultural value. Now a burden

attached to the occupation of every site proportional to the value of the site must diminish this relative advantage. If there were no onerous rates in a district one site A might be worth £100 per annum more than another site B, and B might be worth £100 per annum more than a third site C. But if there is a burden attached to each site proportional to the value of the site, say an onerous rate of five shillings in the pound, then the burden on A will be £25 more than the burden on B, and in the long run the rent obtained for A will be only £75 more than the rent obtained for B, because £75 represents the net advantage of occupying A rather than B; and similarly the burden on B will be £25 more than the burden on C, and the rent obtained for B will be only £75 more than the rent obtained for C. In the same way, proceeding by steps of £100 from the most valuable land in the centre of a town to the cheapest land on the outskirts which is worth little more than an agricultural rent, we shall find that each step of £100 is reduced to £75 by the onerous rates. That is to say, the rent of every site is reduced by twenty-five per cent., *i.e.*, by the amount of the onerous rates paid in respect of it. In practice the rate is assessed not on the total value of land, as I have imagined, but on the rent actually obtained, so that a rate of 5s. in the pound would reduce the rent of land worth £100 a year—not to £75, but to £80, because the burden would be five shillings in the pound calculated on £80, *i.e.*, £20.

The reason for this reduction of rents—to put it another way—is that an occupier can escape a burden attached to land by going to cheaper land, and it will pay him to do so unless the owner of the land consents to bear the burden himself. A man looking for a house in Park Lane does not propose to himself the alternative of Peckham or East Ham: a very inferior site does not

compete with a very superior one. But each class of sites competes with the class immediately above it and immediately below it in value, and therefore indirectly the most valuable and most heavily burdened land is exposed to the competition of the least valuable and most lightly burdened land. The competition may be modified by special circumstance, there may be areas in a town which for a time are cut off from the competition of surrounding areas, but in the end there can be no escape from the law that a tax on economic rent—that is, a tax on the value which land possesses by virtue of its position—diminishes rent substantially by the amount of the tax.[1]

So far almost everyone is agreed: the controversy is about rates paid in respect of buildings. The incidence of rates paid on buildings must be either on occupiers or else on owners of land (including leaseholders); it cannot be on builders, for they must get the market value of their capital, skill and labour. At first sight it would seem that an occupier can escape part of his rates by occupying a smaller building, just as he can by occupying cheaper land, and that the above argument concerning rates on land must apply also to rates on buildings. But we must remember that buildings are built to suit occupiers, and any tendency to take smaller buildings because of the rates or for any other reason is met by building them smaller. Assuming for the moment that the rate in the pound is the same all over the country, the rates assessed on a certain value of bricks and mortar will be the same on whatever land the bricks and

1. There is indeed one qualification to this rule. A tax on the rent yielded by land undoubtedly diminishes the profits of investors in real property, and therefore in some degree discourages such investments; it tends to reduce the amount of building and therefore to raise rents. If, however, land was taxed not by reference to the rent it actually yields but by reference to the rent it is capable of yielding, this tendency would be balanced, and perhaps more than balanced, by the pressure on an owner to put his land to the best use.

mortar stand. Consequently, so far as these rates are concerned an occupier has nothing to gain by going to other land, and cannot bargain with a landowner and say—as he can say of rates assessed on land: "If you will not pay some of my rates I shall go to cheaper land where I shall have less to pay." The only possible way in which occupiers can shift rates on buildings is by threatening to go to smaller houses, and this threat is met in advance by building houses to suit them—that is, so small that they are unwilling to take smaller ones. Rates on buildings therefore would seem to follow the ordinary rule of a tax on a manufactured article, and to fall on the consumer, who in this case is the occupier.

We must distinguish, however, between new buildings and old buildings. Old buildings were built not to suit present occupiers, but to suit former occupiers, and if the character of a neighbourhood has changed and large houses are giving place to smaller ones, no doubt the additional rates to be paid on the large houses are regarded as a special burden attached to them and diminish rents. We know as a matter of fact that this change is taking place in the older residential districts all over the country and that large houses in many of these districts can be bought or rented at greatly reduced figures. This is partly due to the fact that people remaining in the districts are unwilling to pay the high rent of these houses or to incur the cost of keeping them up, but it is also due to the fact that they are unwilling to pay a very large sum in rates for which they get no corresponding advantage.

But some Economists[1] and all estate agents are of

1. See Sir Robert Giffen. "The idea of the separate rating of ground values arises from a misunderstanding of the real incidence of rates. As that burden falls *ab-initio* on the ground landlord, diminishing the sum of capital on income, he is able to obtain for his property, there is really no separate ground value to be assessed." Memorandum prepared for the Royal Commission on Local Taxation, paragraph 10.

opinion that the whole of the rates, whether paid on land or buildings, fall in the long run on owners of land. Every land agent will tell you that occupiers take account of rates, and if rates were less would pay so much more in rent. I cannot help thinking that estate agents are misled by their experience in dealing with single properties. An intending occupier bargaining for a particular house, of course, would be willing to pay more in rent if there were no rates to be paid in respect of that particular house. If one property were exempted from rates while neighbouring and competing property remained subject to rates, the value of the exempted property would be increased by the amount of the rates, for it would possess that much advantage over its competitors. And when an occupier bargaining for a house tells the estate agent that if there were no rates to pay he would be willing to give so much more in rent, he is telling the truth, for he has in his mind his general experience of the cost of a house including rates, and he is comparing that cost with the rent he would be willing to pay for a house provided that it were free from rates. But this does not touch the real question, which is—what rent would that house command if *all* houses were free from rates?

The view of Economists who hold that the whole of the rates paid in respect of a property fall *ab initio* on the owner of the land was well expressed by Mr. Goschen in the famous report which he drew up as Chairman of the Select Committee on Local Taxation, 1870. In a much quoted passage Mr. Goschen says: "The builder calculates on a certain profit or else he would not build; he knows that tenants of a certain class can afford to give a certain rent and no more for a certain class of house; and therefore if building is to take place at all it is clear that the rates must fall there, where alone exists a margin to

bear them—that is, on the price given or the ground rent promised to the owner of the soil." The argument here, as I understand it, is that the obligation to pay rates makes an occupier a poorer man, and therefore renders him unable or unwilling to pay as much rent as he otherwise would pay. But if you are going to say that rates fall on owners of land for this reason you might just as well say that all taxation falls on owners of land, or that the cost of a tenant's food and clothing falls on his landlord, for the obligation to pay for food and clothing certainly makes a tenant a poorer man. Who ever heard of the incidence of a tenant's butcher's bill being on his landlord? Of course, in a district where there is an absolute monopoly of land and houses so that a landlord can demand the whole of his tenant's income, leaving him barely enough to support existence, every necessary expense is so much deducted from rent, and in a certain sense the incidence even of a tenant's butcher's bill, or at any rate of his bread bill which is an absolute necessity, may be said to be on his landlord. Happily such conditions are not usual, though they may exist in some districts in the East of London and elsewhere. But there is frequently a partial monopoly in poor districts, and it is difficult to avoid the conclusion that if tenants of small houses had not to pay rates on buildings higher rents would be squeezed out of them in some cases. Speaking generally, however, and of normal districts, if rates were lower (or if the price of coal were lower) tenants would increase their expenditure all round, and would spend only a small part of their increase of wealth on land.

And now let us test the question as far as we can by taking a concrete example. On the outskirts of any large town may be seen semi-detached houses of about £40

rateable value built on land worth £800 or £1,000 an acre capital value or perhaps £30 an acre annual value. The area of land attached to each house is not more than three or four hundred square yards, so that from twelve to sixteen houses go to the acre. If the rates in the district stand at seven shillings in the pound the total amount paid in rates on an acre of these houses (taking them at fourteen to the acre) will be, in round figures, £200. Is it really contended that if there were no local expenditure and no rates in this district an acre of the land in question could be let at £230 instead of £30 and, sold for £6,000 instead of £1,000? The supposition is an impossible one, for if there were no local expenditure there would be no roads and no drains, and therefore no houses. Is it contended that the land could be sold for £6,000 if local services were paid for out of Imperial taxation?[1]

But let us take a real case and imagine that the rates in the district suddenly increase from 7s. to 8s. in the pound, so that an additional £28 will be paid on one acre of fourteen houses. If it is true that the whole of this amount will fall on the owner of the land, the value of this land and of similar land in the neighbourhood will be reduced to practically nothing at all. A sudden rise in the rates of a shilling in the pound or even more is by no means an unheard of thing—such a rise occurred in Manchester when the Corporation came to the assistance of the Manchester Ship Canal Company—but I venture to say that such a variation in the value of land is contrary to all experience.

1. It has been suggested that a considerable reduction of the rates on buildings would give an immense stimulus to building on the outskirts of a town, and would result in raising the price of land on the outskirts, and that this rise in value would (by competition) be communicated to all the land in the town. It is possible, however, that increased building on the outskirts might reduce the rent of houses nearer to the centre. This is the experience of Australia. See Chapter IX. below.

It is true that a sudden rise in rates may check building in a district, and for a time may drive it away to other districts where the rates are lower. And here comes in a consideration which hitherto we have ignored. Rates vary in different rating areas, and if there are two neighbouring and competing districts, and if onerous rates are appreciably higher in one district than the other, then rents (total rents, both of land and buildings) will be reduced in the one case and raised in the other until the two districts compete on equal terms. More importance is attached to this qualification than it appears to me to deserve; as a general rule rates in districts which really compete with one another do not differ very much, and if there is a considerable difference it is temporary and not permanent.

The conclusion then is that onerous rates in so far as they are paid in respect of land, fall on owners and diminish rent; but in so far as they are paid in respect of buildings, (excepting old buildings which have become unsuited to their sites) fall substantially on occupiers. I am not contending that rates paid on buildings have no effect on the rent of land, but that in the main they fall on occupiers.[1]

And now we come to a very important point. In so far as the annual rent of property is diminished by an annual

1. "Is the impost beneficial, as generally the case with rates? Then the occupier pays for benefits. Is the impost more or less onerous? Then in the case of new houses, or old houses which are in competitive touch with new houses, the burden is shifted on from the producer to the consumer, that is the occupier." Prof. F. Y. Edgeworth, *Economic Journal*, vol. x., p. 511, December 1900. The broad view that onerous rates paid in respect of land fall on owners, and that onerous rates paid in respect of buildings fall on occupiers is accepted, and stated by the following (among others) of the experts who answered the questions set by the Royal Commission:—The Rt. Hon. Leonard Courtney, Mem.; Prof. Sidgwick, Mem.; Prof. Marshall, Mem.; Prof. Gonner, Mem.; Mr. Sargant, Mem., and in his book on Urban Rating. Prof. Edgeworth is more guarded, but I do not understand that he dissents. It is indeed the classical view, and is expressed by Mill, *Principles of Political Economy*, Peoples' Edition, book v., ch. 3, s. 6.

payment of rates the selling price which can be obtained for the property must be diminished by the capitalised value of those rates. If the rent which can be obtained for a property is reduced 25 per cent. by the rates then the price which can be obtained for it will be reduced in like proportion. In fact, rates which diminish rent fall in their capitalised value on the person who owns the property at the time when they are first imposed or expected. A purchaser only pays the future increase in these rates accruing after the date of purchase, and perhaps not even this, for he may have anticipated the increase and allowed for it when the purchase price was fixed. It is impossible permanently to tax owners of one kind of property more than owners of another kind. A man who wishes to invest £10,000 with good security, may hesitate between Consols and a row of houses. If he chooses the latter alternative his property on the face of it will be taxed far more severely than if he had chosen the former. But he has nothing to complain of; he has given the market price for what he purchases, neither more nor less. He cannot possibly complain of rates existing at the date of sale, for, so far as they fell on the owner and diminished rents, they diminished the price he paid for the property. As land is being bought and sold continually the burden of the rates is in continual process of being transferred to owners of property in general and perhaps to the community at large. If a man sells his land and buys Consols which he leaves to his children, any diminution in the price obtained for the land due to the rates diminishes the income of his children, who may not be owners of land at all. The reason why the rates are such a serious tax on owners of real property is that they are continually increasing. The following table which gives the total average rate in the pound for London and for

the whole of England and Wales, for certain years since 1874 is transcribed from the last published summary of Local Taxation Returns:—

Year.	Average Amount per pound of Valuation of Public Rates raised. London.	Rest of England and Wales.	England and Wales.
	Per pound of rateable value.		
	s. d.	s. d.	s. d.
1874–75 ...	4 1·6	3 1·7	3 3·8
1879–80 ...	4 4·4	3 0·9	3 3·8
1884–85 ...	4 6·5	3 3·3	3 6·3
1889–90 ...	4 10·1	3 4·5	3 8·2
1894–95 ...	5 5·8	3 10·3	4 2·4
	Per pound of assessable* value.		
1898–99 ...	5 7·6	4 7·0	4 9·9
1899–1900 ...	5 11·6	4 8·2	4 11·8
1900–1901 ...	6 2·3	4 9·5	5 1·3
1901–1902 ...	6 4·4	5 0·1	5 3·8
1902–1903 ...	6 9·6	5 3·2	5 7·4
1903–1904 ...	6 9·7	5 6·0	5 9·5

Not only has the average rate in the pound increased continuously during these thirty years, but it has increased at an ever increasing speed. An increase in rates falls first on occupiers and leaseholders; but eventually, so far as it is onerous and is paid on land, it falls in its capitalised value on the persons who own land when it accrues.

To sum up: part of the rates paid in respect of a property are merely payment for services rendered to the occupier, in doing for him what he would choose to do for himself. This part cannot be distinguished in principle from a charge for gas, or a charge for sweeping a chimney or for keeping a garden in order, and undoubtedly falls

* That is, rateable value reduced by an amount equal to one-half of the rateable value of agricultural land.

on the occupier. The remainder of the rates—in the case of the larger houses by far the greater part of the rates—so far as they are paid in respect of land fall either on the present owner of the land or else on past owners of the land; but so far as they are paid in respect of a building they fall substantially on occupiers.

Onerous rates paid in respect of buildings used as private dwelling-houses may fairly be regarded as a local income-tax, the income of the person or persons occupying a house being measured by the rental value of the building.[1] The method of assessment is not a very accurate one, for as a general rule the proportion of income which goes in rent is highest for the smallest income, and diminishes as incomes rise. But the poorer classes cannot complain, for the benefit they receive out of local expenditure is out of all proportion to the payment they make. And they do not complain; the demand for increased expenditure almost always comes from them. To a certain extent this may be due to the fact that they are unable to distinguish rates from rent, and there is a great deal to be said for the suggestion that compounding owners should be obliged to present demand notes to their tenants in which rates are distinguished from rent. Perhaps the people who suffer most from local taxation are the people who suffer most from Imperial taxation, the people who pay income-tax on small incomes, who live in houses which are large in proportion to their incomes and who do not send their children to the free schools or make full use of other local services. But in a greater or less degree everyone must contribute to the rates because everyone is an occupier of rateable property. It is im-

1. See Mill, *Principles of Political Economy*, Peoples' Edition, p. 503: House tax is a tax on income measured by a particular branch of expenditure.

possible to escape by living in lodgings or in an hotel for the rates must of necessity be included in the price of accommodation.

In the foregoing examination I have confined myself to the incidence of rates paid on dwelling-houses. The incidence of rates paid on business premises is a far more difficult question. Indeed the uncertainty is so great that it is not a very profitable subject of discussion. The general rule that rates paid in respect of land fall on the owner must be true in both cases, though in the case of business premises a tenant is sometimes unable to bargain with his landlord on equal terms because of the expense and loss of custom involved in removing. But that part of the rates which in the case of a dwelling-house falls on the occupier, may in the case of business premises be transferred by the trader to his customers. If a trader is faced with an increase of rates he may have to submit to a reduction of profits, but on the other hand he may be able to raise his prices, and so transfer the burden to the whole community. It is almost impossible to say which of these two alternatives will result: it depends on the circumstances of each case. The fact that the rate in the pound varies in different districts is of much greater importance in the case of trade premises than in the case of dwelling-houses, for a manufacturer whose factory is situated in a place where the rates are high is heavily handicapped in his competition with a rival who manufactures in a place where the rates are considerably lower —that is, if other things are equal in both places. And generally our rating system bears hardly on those traders who are compelled to use an exceptionally large amount of rateable property or are compelled to use rateable property of a value which is high in proportion to their profits—for example, small shopkeepers.

It is necessary to remember always that these rules of incidence cannot be applied mathematically to each individual case. It would not be difficult to find many cases which would seem to be governed by precisely opposite rules. The claim made is that they are true on the average and in the long run, taking large areas and long periods.

The incidence of rates is the same in the long run who ever pays the rates in the first instance, and it cannot be altered by allowing an occupier to deduct his rates from his rent. As Mr. Cannan has put it: "If occupiers were allowed to deduct their rates or the cost of getting their hair cut or any other expense from their rents then their rents would be that much higher." [1] Rates which fall on the occupier cannot be evaded by him whatever form of payment is adopted, while rates which fall on the owner are already paid by him because he receives a diminished rent and to afterwards deduct them from rent is to attempt to make him pay *twice over*. Of course, if leaseholders were allowed to deduct their rates from their rents irrespective of existing contracts they would be relieved for a time, but as soon as new contracts were made rents would be raised substantially by the amounts deducted. No one now suggests that existing contracts should be broken, but it is suggested that after these contracts have expired a leaseholder should be allowed to deduct the rates (or part of them) calculated on the value of the property as it stood at the commencement of the lease. Although this would not alter the final incidence of rates, it would give an advantage to leaseholders in districts in which the rates were increasing. At present any unexpected increase in the

1. Memorandum presented to the Royal Commission on Local Taxation, par. 12.

rate in the pound falls for a time wholly on leaseholders. If rates were deducted from rents the increase would for the same time fall wholly on owners. Whatever this advantage may be the majority of occupiers would have little share in it, for their rates are paid in the first instance by their landlord, and therefore cannot be deducted from rent. It is true that the landlord may pay a ground rent and that he may hand over to his tenants the benefit of the deduction which he makes from the ground rent; but it does not seem likely that the tenants would get very much. The majority even of those occupiers who pay their rates directly would gain very little by the deduction of rates, for they hold under short agreements, and their rents are subject to frequent revision. The key to the problem of the incidence of rates is the recognition that it matters comparatively little who pays the rates in the first instance, but it matters a great deal whether the rates are paid on buildings or on land. "The incidence of a long-established rate," says Professor Marshall, "is little affected by its being collected from the tenant and not from the owners, but it is vitally affected by the proportions in which it is assessed on site and building values respectively; the main part of the former settles on the owners, and of the latter on the tenants." [1]

1. Memorandum presented to the Royal Commission on Local Taxation. par. VI., b. 22.

THE RATING OF PERSONAL PROPERTY

CHAPTER II.

The Rating of Personal Property.

It will be convenient before discussing the rating of land values to consider very shortly two proposals which are sometimes put forward as alternatives to that reform, namely, the rating of personal property and the establishment of a local income-tax.

No figures or comparisons showing the proportion of taxation borne by real and personal property "can afford a real clue to the problem of equitable contribution" to taxation. But it is desirable as a general rule to broaden the basis of taxation as much as possible and so to avoid undue pressure at any one point. In France this principle is carried to an extreme: a tax of thirty or forty per cent. on land and buildings is unknown in that country, but on the other hand almost every conceivable thing is taxed in some degree. The local taxes on immovable property in French towns are very light as compared with our rates, and to make up the required revenue there are octroi duties on many articles of consumption; taxes on vehicles, on trades and professions, on doors and windows, on some kinds of income, and so forth, many of the taxes being surtaxes on the State taxes. The taxpayer is struck at from every point, and if some taxes do not hit him others will. We may believe that our system of local taxation is the better one, but we must admit that the French system possesses certain advantages. I shall speak later of the peculiar defect of our rating system, in that it discourages building and improvements, but apart from that a system which concentrates taxation on a single object is likely to be oppressive in the case of those persons who are compelled to use a quantity of the object taxed

disproportionate to their ability to bear taxation. Under such a system there are bound to be hard cases which would be avoided by greater diffusion of taxation, and *prima facie* there is a case for rating all property including personal property. But what is meant by "personal property"? The legal distinction between real and personal property does not correspond to any material distinction. The legal distinction is highly abstract and artificial, and is based on the old forms of legal actions, on the rules of inheritance and on modes of assignment. Personal property is divided into chattels real (which include leases and every other interest in land except a freehold) and chattels personal, and even chattels personal include property which is rateable. Shares in a railway company are personal property, but they represent property which is very heavily rated; and the same is true in some degree of shares in any trading company. A share certificate is not property in itself, but only a title deed of property. When a business is turned into limited company the property of the firm is not thereby increased, and we cannot put a new tax on the shares in the company unless we are prepared to put a new tax on the land, buildings, stock-in-trade, goodwill, etc., of a similar business which has not been turned into a company. The division of property into rateable and non-rateable does not follow the legal division into real and personal, but the physical division into immovable and movable. The Law looks rather to the title to property than to the property itself, but the rate-collector always looks to the physical thing.

Those who advocate the rating of personal property refer to the Act of Elizabeth, upon which our poor law is founded, and it is probable that the framers of that Act intended that each inhabitant of a parish should be rated to the poor in respect of *all his possessions* within

the parish.[1] But property in those days existed in comparatively simple forms, and even in those days there were endless disputes as to what property was rateable. It used to be said that property to be rateable must be something physical—"visible within the parish," and then arose the question whether everything visible was rateable. For more than two hundred years after the Statute of Elizabeth some kinds of personal property,[2] and particularly stock-in-trade, were liable to be rated. The custom varied in different parts of the country, and when the judges were called upon to state the law they usually declared that the rating of personal property was legal in any district in which it had been the custom to rate it. The decisions are conflicting, and Lord Mansfield was strongly opposed to the rating of personal property in any place. In a case at Ringwood[3] in 1775, where the justices had quashed a rate because certain brewers were not assessed in respect of their stock-in-trade, and in which all the old cases were cited, Lord Mansfield said: "In general I believe that neither here nor in any other part of the kingdom is personal property taxed to the poor. But as to this case I have no doubt what should be done with it . . . . how would they (the justices) have rated this stock? Are the hops and the malt and the boiler to be rated at so much for each? Or, is the trader to be rated for the gross sum which his stock would sell for? If the justices had considered they would have found out the sense of not rating it at all, especially when it appears that mankind has, as it were, with one universal consent refrained from

1. Poor Relief Act, 1601; 43 Eliz., c. 2. The wording of the Act is obscure, but no doubt the intention was that each inhabitant of the parish should pay according to his ability.

2. Here and hereafter, by "personal property" is meant movable property.

3. R. *v.* Inhabitants of Ringwood, I. Cowper's Reports, p. 326. See Mr. Cannan's *History of Local Rates in England.*

rating it; the difficulties attending it are too great, and so the justices would have found them. As to the authorities which have been cited they are very loose indeed, and even were they less so one would not pay them very much deference, especially as they differ, and the rules they lay down have not been carried into execution for upwards of a hundred years. They talk of *visible* property. What is *visible* property? I confess I do not know what is meant by visible property. If every visible thing should be determined to come under that description, in that case a lease for years, a watch in a man's pocket would be rateable. Visible property is something local in a place where a man inhabits. But that does not decide what a man's personal property is. . . . . Consider how many tradesmen depend on *ostensible* property only. . . . . Some artificers have a considerable stock-in-trade; some only a little; others none at all. Shall the tools of a carpenter be called his stock-in-trade, and as such be rated? A tailor has no stock-in-trade; a butcher has none; a shoemaker has a great deal. Shall the tailor, whose profit is considerably greater than that of the shoemaker, be untaxed and the shoemaker taxed?"

The dispute went on for more than half a century after this judgement, and in some places personal property continued to be rated. In 1840, however, after a debate, in which the Attorney-General said that the law had become "quite odious," and that except in a few instances no attempt had been made to enforce it, an Act was passed which put an end to the rating of personal property.[1] It was a temporary measure, and has been kept in force ever since by the Expiring Laws Continuance Act; but

1. Poor Rate Exemption Act, 3 and 4 Vict. c. 89. In Scotland "Means and Substance" was the test down till well into the last century, and ceased to be so in Greenock only in 1880; but finally the test of property prevailed. Prof. Smart, *Taxation of Land Values and the Single Tax*, p. 32.

we may be quite sure that the practice of rating stock-in-trade will never be revived.

Then what personal property are we to rate? The answer given is, furniture, pictures, works of art, and it is said that there exists property of this kind to the value of at least 1,000 millions which entirely escapes taxation.[1] Putting aside all the difficulties of valuation, that we should go into the millions of poor and middle-class homes and tax the householders on their savings, on what has cost much self-denial to buy, on their wedding presents, on everything that makes a home comfortable, seems a suggestion unworthy of a civilized nation.

It may be said that the effect of rating furniture would be to relieve the poor and cast a greater burden on the rich. But even so, every man would be taxed in proportion to the care which he took of his home: it is bad enough to tax the house itself without going inside and taxing the furniture. And how is furniture to be valued? Surely not at the amount it originally cost, but at the amount for which it would sell, which is a matter of conjecture. The people who would suffer most under this tax would be those who had recently purchased furniture, *i.e.*, the newly-married.

The example of the United States, which is so often quoted, is nothing but a warning. In the United States there is a tax on the capital value of both real and personal property, and everyone is required to declare the amount of his personal property, with the result that—to judge by the returns—personal property in the United States has become a vanishing quantity. Professor Ely's book, *Taxation in American Towns and Cities*, is full of instances of the

1. See table prepared by Sir Alfred Milner. Royal Commission on Agricultural Depression, Minutes of Evidence, vol. iv., p. 583.

fraudulent way in which personal property is withheld from taxation: the only persons who pay on the full value of their property seem to be women and minors and other persons whose property is in the hands of trustees. Many official Commissions have condemned the tax in the strongest possible terms: "Debauching to the conscience and subversive of the public morals; a school for perjury promoted by law"; "instead of being a tax on personal property it has become a tax on ignorance and honesty." Apparently the experience of Canada is similar, for in 1902 the Assessment Committee of Ontario reported that "the abolition of the tax on personal property would seem to be necessary."[1] "Beyond all doubt," says Professor Seligman, "one of the worst taxes known in the civilized world."

An annual tax on personal property generally seems impossible. The only way in which this property can be taxed is by means of a death duty, and a good case could be made out for exempting furniture and other property which does not produce income even from the death duties. Out of £303,718,475, the gross capital passing at death in the United Kingdom of which the Department had notice in 1905–06, the amount placed under the head of "household goods, pictures, china, linen, apparel, etc.," is only £6,542,592. Unless the Commissioners of Inland Revenue are content to accept a merely nominal valuation of this kind of property, these figures seem to show that the value of household furniture is very much over-estimated when it is put at 1,000 millions. It may have cost that much to buy, but its selling value cannot be half as much or anything like half as much. Personal property bulks so large in Estate Duty statistics

1. See "Papers respecting the Local Taxation of Personal Property in Certain Foreign Countries and British Possessions," 1904 [Cd. 2098].

because testators nowadays can leave to those who come after them shares in going concerns, which include not only a great deal of real property, but a great deal of intangible property, such as goodwill, manager's skill and everything else which makes up the value of a trading concern.

A suggestion sometimes confused with the rating of personal property is that of a local income-tax. It is said that the best measure of a man's ability to pay taxes is his income, and the opinion has been expressed very strongly that the only means of reforming our system of local taxation is to be found in the direction of a local income-tax. Mr. Harold Cox has suggested [1] (if I understand him) that the present rate in the pound in any district should never be exceeded, and that any additional revenue which may be required and which the rates will not produce should be obtained by means of a direct tax on income. He suggests that the tax should be graduated, but that it should be levied even on the poorest people. The plan has the advantage of making the change mild and gradual, though it would necessitate very expensive machinery for the purpose of collecting very small sums. But Mr. Cox gives no answer to the old question: If a man carries on business in one place, say, the City of London, and lives in another, say, Kingston, and has a cottage in the country and owns shares in half-a-dozen companies trading in different parts of the United Kingdom, is he to pay income-tax in all these places? on the whole of his income from whatever source? If not, in respect of what portions of his income is he to be taxed in each place? Mr. Cox says: "The proposed tax would be a personal tax based on local evidences of income," and I presume

1. Pamphlet entitled "Taxation of Land Values: a Delusion and a Danger." P. S. King & Son, 1905.

this means that a man is to be taxed in the place or places where he resides. Then what is to happen to the City of London where very few people and scarcely any wealthy people reside? Or how is the increasing expenditure of Crewe or Swindon or Derby to be met if the rates in the pound are stereotyped and if the shareholders of the London and North-Western and Great Western and Midland Railways are to that extent relieved of their obligation to contribute to the rates of those towns?[1]

It is conceivable, of course, that we might substitute a direct tax on income for rates paid on dwelling-houses and a tax on profits for the rates paid on business premises. The Continental system of *Centimes additionels* or *Zuschläge* allows local authorities to add a sur-tax to some of the national taxes, in particular to the taxes on income and trade. Some idea of the Prussian method of taxing incomes locally may be gathered from a description

1. The difficulty of rating a man who lived in one place and occupied property in another arose in Jeffrey's case very early in the history of Rating. The case is cited in Mr. Cannan's *History of Local Rates in England*. It is reported in 3 Coke 133, and was decided in 1589, twelve years before the Poor Law Statute of Elizabeth. Jeffrey resided in the parish of Chiddingley in Sussex, but owned and farmed land in the neighbouring parish of Haylesham. The church wardens of Haylesham made a rate for the repair of the church in that parish, and assessed Jeffrey in respect of his land to the amount of 28s. 8d. Jeffrey objected on the ground that he was not an inhabitant of Haylesham. It was held, however, that he was liable to pay the rate, and the practical reason given was that if he did not pay the rate in respect of the land, no one would pay it, "upon which great inconvenience would ensue; for one who inhabits in the next town may occupy the greatest part of the lands in other towns, and so churches in these days will come to ruin." An interesting question which did not arise in the case is whether Jeffrey would have been liable to be assessed in respect of the same land to a rate for the repair of the church in Chiddingley. We have long ago answered this question in the negative. It is easy to tax immovable property locally, for it is local in its nature; but income is not localised in the same way.

contained in a Report on Local Government and Finance in Prussia, published by the Foreign Office in 1899 :— [1]

"In order to guard against double taxation it is provided that insurance companies, bank and credit establishments pay according to the income derived from the commune, plus 10 per cent. of the total income, which is reckoned to the commune where they have their principal office. In the case of other businesses the division is made on a calculation of the amount paid in wages and the number of employés in each commune. The income is assessed on the average for three years. The person paying the tax makes a yearly statement, with a proposal as to the division of the tax imposed among the communes concerned, which statement and proposal are submitted to a communal official. The assessment of the local income is made, however, independently of the entire income (*i.e.*, for the State tax), and is to be corrected by the results for the

1. [C. 9045—15]. Diplomatic and Consular Reports, No. 487, in the series of the year 1899. The Report contains an interesting analysis of local taxation in the City of Berlin. The following amounts were raised in the year 1898–99.

	£
Land and Building Tax	840,000
Trade Tax	352,000
Sale of Beer and Spirits	14,250
Income Tax	1,188,500
Dog Tax	24,219
Malt Tax...	33,750
Stalls in Streets	25
On Sale of real Estate...	77,506
Total	2,530,750

The population of the City on 1 January, 1898, was 1,753,755. The gross annual value of the land and buildings was £14,500,000, so that the tax on this property, which is a tax on letting value, corresponds to a rate of a little more than 1s. in the pound. The trade tax is a tax on net profits. The income tax is 100 per cent. of the State tax. Within certain limits every commune is at liberty to impose what income tax it pleases, but local authorities are directed by the State to spare the income tax as much as possible and to lay the chief burden on land and buildings. The tax on sale of real estate is a tax of 1 per cent. on the sale of land not built on, and of ½ per cent. on the sale of other real property. For more recent figures see *Political Science Quarterly*, December 1905, article entitled "Berlin's Tax Problem," by Robert C. Brooks. Since March 1904, the taxes on sale of real estate have been doubled.

latter. If the local income given by a resident banker, etc., is less than one-quarter of the whole income, the commune can claim a full quarter, the difference to be deducted from the local income derived from other communes. As a rule persons with more than one residence pay according to the number of their residences and the commune in which they reside for more than three months, *e.g.*, if a man has four residences in different communes he pays a quarter of the tax to each."

This system, however, has resulted in a terrible complication of the income-tax. Mr. J. Row-Fogo, writing in a recent number of the *Economic Journal*, quotes from a memorandum written by an official of wide experience in reference to the Saxon income-tax, which is supposed to be a very good one of its kind:—"It is no exaggeration to say that if the financial position of a taxpayer is in any way complicated the preparation of his declaration of income in a manner which will satisfy the authorities becomes an exercise which severely tests the knowledge of an expert. It is not surprising that the public have come to look upon the whole income-tax as an occult science of the revenue officials to which they are abandoned without hope and in regard to which honesty is not the best policy."[1] And later in the same article the writer speaks of the great difficulty of collecting the income-tax. In Chemnitz, a manufacturing town in Germany, of about 168,000 inhabitants, the number of legal summonses in the year 1893 which had to be employed in levying local taxes was 52,200; in Leipsig, with 409,000 inhabitants, and in Breslau, with 391,000 inhabitants, the number of summonses in 1898 were 74,263 and 111,006 respectively. In Prussia the State limit of exemption from income-tax is £45, but the communes have power to go lower if they

1. "Local Taxation in Germany." *Economic Journal*, vol. xi., p. 361.

choose. There is said also to be some tax dodging by rich people seeking the communes which levy the lowest income-tax.

Evidently a local income-tax is a difficult thing to deal with even in Germany and with German painstaking methods, but with us the difficulty would be far greater for incomes are less localised in this country than in any other country in the world. Consider whence the West End of London draws its income. And what is true of income is true of the capital which produces the income. A local death duty has been proposed; but when a capitalist dies at his residence in Kensington, is Kensington to benefit to the exclusion of the places where the capitalist carried on his various trades? or if every place is to benefit then in what proportions? [1]

The more the subject is examined the more clear it is that the great bulk of revenue raised locally must always be raised by means of rates on immovable property. The only way in which we can put a direct tax on income or personal property for local purposes, is by imposing an Imperial tax and devoting the revenue it produces to the relief of rates all over the country. To a very large extent this is done already; for at the present time a sum of no less than £30,000,000 is raised by Imperial taxation and is then handed over in one form or another to local authorities in the United Kingdom. It will appear later that an extension of this system must form part of any complete and equitable scheme for the rating of land values.

1. A local death duty in respect of real property only, has been suggested. But this ignores the fact that vast quantities of real property are owned by Corporations who never die. The shareholders die; but how is every local authority through whose area the London and North Western Railway passes to estimate and claim its share of the duty on the property belonging to the Company which passed on the death of a shareholder, in London, or anywhere else? Even if it were possible, what complicated and wasteful machinery would be needed.

THE ARGUMENT FOR RATING LAND VALUES

CHAPTER III.

The Argument for Rating Land Values.

The past century has seen England change from a country mainly agricultural inhabited by a population fairly distributed over the land into a country overwhelmingly industrial with a vastly greater population, four-fifths of which is gathered into towns and for the most part into huge manufacturing and commercial cities or groups of cities, surrounded by suburbs and dependencies stretching out miles in every direction. This great change has enormously increased the cost of local government. Large allowance must be made for the institution of free public education, and there are many other circumstances to be taken into account; but the mere collection of hundreds of thousands of people on a few square miles of land necessarily involves expenditure far greater than that required by an equal population distributed over a wide area. The cost of cleaning, lighting, repairing and improving the roads, the cost of sanitation, the cost of providing parks and open spaces, the cost of the police, the cost of poor relief necessitated by unemployment, are all greater in a town than in the country for equal populations. Consequently while in rural districts rates have remained stationary or increased only slightly, in towns and urban districts, and particularly in the great centres of population and in districts which are rapidly growing in population, rates have increased and are increasing at an alarming rate. In spite of all that has been said and written of late about the increase in the rates, justice has hardly been done to the facts. Local taxation has increased steadily for the past half century

and more, but in very recent years it has shown signs of gigantic development. The following table is founded on a similar table in an appendix to the Report of the Royal Commission on Local Taxation; the figures are for England and Wales only:—

Period.	Rates raised in first year of each period.	Rates raised in last year of each period.	Mean increment per annum.
	£	£	£
1867 to 1874–75 (7 years).....	16,504,000	19,198,000	385,000
1874–75 to 1881–82 (7 years)...	19,198,000	23,905,000	672,000
1881–82 to 1890–91 (9 years)...	23,905,000	27,819,000	435,000
1890–91 to 1898–99 (8 years)...	27,819,000	38,602,000	1,348,000
1898-99 to 1903-04 (5 years)...	38,602,000	52,941,000	2,868,000

In reading the table it is necessary to take account of the fact that the amount of Imperial grants and subventions in aid of local rates in England and Wales has been increased from time to time, and in particular was increased by £4,000,000 in 1888–90, and again by £1,300,000 by the Agricultural Rates Act, 1896. If these increased grants had not been made, then (assuming that local expenditure would have increased at the same rate) the mean increment per annum between 1881–82 and 1890–91 would have been £879,000, instead of £435,000 as given in the table, and the mean increment per annum between 1890–91 and 1898–9 would have been £1,514,000 instead of £1,348,000 as given in the table.

It will be seen that the great increase in rates began in the early nineties and has continued at an increasing pace ever since. No particular branch of expenditure can be pointed to as being responsible for the increase: expenditure has increased all round.

Some further figures for the last five years—the years of greatest prodigality—are set out in the table below; unfortunately 1903–04 is the last year for which complete returns have been published, so that it is impossible to bring the table quite up-to-date:—

	Total amount raised by public rates in England and Wales.	Assessable value of England and Wales.	Average rate in the pound in England and Wales.	Average rate in the pound in London.	Loans outstanding in respect of undertakings not producing income.	Total loans outstanding.
	£	£	s. d.	s. d.	£	£
1898–99	38,602,673	159,985,676	4 9·9	5 7·6	151,748,917	276,229,048
1903–04	52,941,665	182,802,591	5 9·5	6 9·7	206,781,692	393,882,146
Increase	14,338,992	22,816,915	11·6	1 2·1	55,032,775	117,653,098

The average rate in the pound is arrived at by dividing the total amount raised by the total value assessable to the poor rate; but in reality a considerably higher rate in the pound would be required in order to raise that amount because of the numerous leakages and because of the loss due to compounding. Moreover the average rate is pulled down by the low rate in rural areas. The *actual* rates in the pound in urban areas are in almost all cases far greater than the average given in the table. The following figures for certain highly rated towns are taken from the Municipal Year Book (1905–06) and from Vol. XVI. of London Statistics (1905–06):—

	s.	d.
Bradford	8	4
Preston	8	10
Southampton	8	7
Swansea	8	8
Halifax	8	10
Dewsbury	9	4
Leeds	8	8
Liverpool	7	$8\frac{7}{8}$
Manchester	8	$0\frac{1}{5}$
Norwich	9	10
Wolverhampton	9	5
York	8	2
Poplar	12	0
County of London (average, excluding City)	7	6
West Ham	10	8
Edmonton	10	9
East Ham	10	4
Walthamstow	10	3

The figures at the end of the list show how heavy is the burden borne by the working-class suburbs of London—

"the dormitories of London"—which lie outside the County.[1]

. An increase in annual local taxation in England and Wales of over £14,000,000 in five years is a serious matter, but the worst feature of the table is the enormous increase in indebtedness. Loans raised for the purpose of undertakings which produce revenue are conveniently and (with certain qualifications) properly, distinguished from other loans, because the charges for interest and repayment of capital in respect of them are generally met out of the revenues produced and not out of the rates, and because there are *saleable* assets to set off against the debt. For this reason loans in respect of baths, cemeteries, electricity supply, gas works, harbours, piers, docks, and quays, light railways, markets, tramways, and water works have been excluded from the fourth column of the table; so that the figures in this column represent only those loans which are charged directly on the rates. They show that apart from municipal trading, and in spite of the great increase in the rates, local bodies every year are borrowing between ten and eleven millions of money more than they pay back. Our towns are giving hostages to fortune on a vast scale. At the very least every town should satisfy itself that it possesses in kind a full equivalent of the money it owes; otherwise it is laying its future inhabitants under the necessity of spending so much of their labour for the benefit of the stockholders without any corresponding return. It is a very unpleasant fact that the annual local debt charges (interest and repayment of capital) which fall directly on the rates are increasing at the rate of over half a million sterling every year.

1. The special Education grants, made by the present Government to places where the Education rate exceeds 1s. 6d. in the pound will do something to reduce the rates in a few places, particularly in the poor districts to the East of London.

At the same time, it is useless to expect any diminution of local taxation and expenditure; the utmost we can hope to do is to check the rate of increase. Local authorities are always accused of extravagance and sometimes justly so; but the great bulk of their expenditure is inevitable unless we radically alter our ideas, and for the most part it is forced on them not only by public opinion but by Act of Parliament, and by the Local Government Board and the Board of Education. The Education Act of 1902 added considerably to the rates, and the coming Act will add more, and so with the Unemployed Workmen Act and the Act authorising free meals to underfed school children: we cannot conceal from ourselves that local taxation is likely to increase considerably in the near future. But it is impossible that the present rate of increase can be kept up indefinitely. A few years ago 6s. 8d. was considered the standard rate in a large town; now the standard is nearly 8s.; and unless some change is made it will soon be 10s., and some unfortunate towns will suffer under a rate of 15s. and more. There can be no reasonable doubt that the amount raised by public rates in England and Wales in the present year will exceed £60,000,000. That is to say, rates have increased by £22,000,000 since 1898 or at the rate of nearly £3,000,000 a year for eight years.

The total income and annual expenditure of local bodies of course far exceeds the amount raised by rates; for, putting aside tolls and dues, and the immense sums involved in municipal trading (I omit these because I am concerned with public taxation only), very large sums raised by Imperial taxation are handed over to local authorities to spend. There will be occasion hereafter to consider the question of Imperial subventions in greater detail; but it will be convenient to give here a few general

figures showing the total amounts of Imperial and local taxation, and the amount of assistance granted by the Imperial Government to local authorities. The Annual Return of Public Income and Expenditure which is associated with the name of Sir Henry Fowler,[1] gives the total tax revenue for the year ending March, 1906 (*i.e.*, the amount raised by Customs, Excise, Estate, etc., Duties, Income-tax, Stamps (exclusive of fee and patent stamps), Land Tax and House Duty) as £129,776,290. In the same year the amount raised by public local rates in the United Kingdom (England and Wales, Scotland and Ireland) must have been very nearly £70,000,000. The total amount therefore raised by Imperial and local taxation was about £200,000,000. Out of the amount raised by Imperial taxation £9,901,290 was paid into an account called the Local Taxation Account, and was handed over to local authorities. In addition to this the Imperial Government granted £15,934,282 towards the cost of public education and £4,545,053 towards the cost of other local services; and the expenditure of all (or almost all) this money was controlled by local bodies (or in the case of Ireland by Dublin Castle) subject, as regards the Education grants, to the supervision of the Board of Education. In round figures therefore, out of the £130,000,000 raised by Imperial taxation, £30,000,000 was handed over to local authorities. Adding this last figure to the £70,000,000 raised by rates, we find that local authorities and the Imperial Government each spent about half of the £200,000,000 raised by public taxation. The word taxation is here used in the conventional sense. It is difficult, however, to draw a sharp line between local taxation and municipal trading: a water rate is regarded as a trader's charge, and a sewer rate is regarded as local taxation, but

1. House of Commons Papers, No. 266 of 1906.

it is not easy to state the principle which distinguishes them. Again the profit made out of the Post Office is regarded by some authorities as taxation.

A second consequence of the development of great cities has been an immense increase in the value of the land on which they stand and in the value of circumjacent land. The growth of the wealth and trade and population of the country and the concentration of the people into towns have driven up land values to figures undreamed of half a century ago. No one pretends that every site in a town has increased or is increasing in value. The increase or decrease in the value of any particular site depends on the direction in which a town expands, on the shifting of the centres of trade, on the extension of tramways and railways, on the nature and locality of public improvements and so forth. A whole town may suffer a set back for a time, and more frequently one-quarter of a town gains at the expense of another. But upon the whole the increase in the value of land in London and in most large towns has been steady and continuous from decade to decade, and (as will be seen from the figures cited in the next chapter) there is good ground for believing that the value of urban land has doubled in the last thirty years. At the centres of large towns the increase has often been far greater, and instances of extraordinary rises in value are known to everyone.[1]

The enterprise of landowners in making roads and developing their land must not be lost sight of, yet by far the greater part of this increase has accrued independently of any act or thought on the part of the owners of the land, and without prejudice may be called unearned. I have no wish to enter into the question of what things are earned and what things are unearned; only a metaphysician is qualified to do so. In a

1. See the debates on the various Land Values Rating Bills, Hansard 1902—1906.

sense no doubt we are all in possession of unearned increment; for even personal ability and bodily health and strength are in a large measure unearned, and the man who inherits them in an exceptional degree has just as unfair an advantage over his fellow men as the man who inherits property. But the fact that we cannot or ought not to put a special tax on all forms of unearned increment is surely no reason why we should not put a special tax on a particular form of unearned increment if the public interest demands it. To hold otherwise would be to say that because we cannot make our system of taxation perfectly and ideally just we ought never to make any reform at all.

But if we are going to put our case on unearned increment we ought to do so boldly instead of attempting to hedge by putting it on public expenditure out of the rates. The point requires some consideration, for it is all important that we should lay our foundations on firm ground. It is said that beneficial expenditure out of the rates, so far from reducing rents, actually raises them and benefits not the occupiers, but the owners of rateable property. The same view is expressed in another way by saying that occupiers pay for public improvements twice over, first in rates, and again because their rents are raised. But there is some confusion here. In the first place, owners can benefit only because occupiers benefit; for it is the benefit to the occupier which creates the increase of rent. And, further, an improvement enables an owner to raise rents only when the benefit to the occupier exceeds in value the money which he pays to defray the cost of the improvement; that is only when the occupier gets more than value for his money. The poorer classes, it is true, get more than value for their money; but the existing communal services, though very expensive, do not often

increase the rent paying capacity of occupiers whose incomes have no margin. A man is not able to pay a higher rent because his children are sent to a free school instead of being allowed to work in a factory or because the local authority insists on a high standard of sanitation or sets up a public library. The inhabitants of a town considered as a body usually get fair value for their money, neither more nor less; and it is very doubtful whether rents are raised much if at all by the beneficial expenditure which is evenly distributed all over the town. The inhabitants are in the position of a tenant who holds under a repairing lease. An owner of land developing his property makes the roads, paves and sewers them, and then hands them over to the occupiers to maintain. The occupiers spend large sums of money every year in repairing the roads, but they have no cause for complaint for that is part of the bargain. And it is a reasonable bargain, for if owners had to repair roads they would of course add the cost of doing so to rents. It is true that occupiers do more than repair the roads; they improve them; they are constantly going in for new lighting schemes and new paving schemes and new drainage systems. But these things have to be paid for, not only by the occupiers who make the improvement, but also by those who come after them. In common practice a loan is raised, and interest on the loan is paid for two generations. It is said that since there is a sinking fund attached to these loans there must come a time when the loan is paid off and the improvement costs nothing, and that owners of land will then be able to exact rent for the benefit. The answer is that by the time the loan is paid off the improvement in many cases is exhausted and a new one takes its place, and in any case the argument only goes to show that owners of land ought to pay the

annual charge for maintaining the sinking funds, which is very small.[1]

And in fairness we ought to look at both sides of the ledger. The onerous rates paid in respect of land—and they must amount to five or ten times the annual payments to sinking funds—in the long run fall on owners of land and diminish rents. There can be no doubt that rates taken as a whole reduce the value of land. By that I mean that if our rating system were entirely demolished, if the cost of education and the relief of the poor were defrayed by means of an income-tax and if owners of land were to form themselves into an association and were themselves to keep the roads, etc., in repair, then they would get a greater profit out of their land than they do under existing circumstances.

At the same time there is a real basis to the argument that beneficial expenditure out of the rates is sometimes a gift to owners of land. Improvements are not equally distributed over a town and do not benefit the occupiers of all land in the same degree. The Thames Embankment, for instance, though benefiting all London in some degree, particularly benefits the occupiers of land in the neighbourhood of the Embankment. These occupiers, though paying (in rates) only a very small fraction of the cost of the Embankment (for the cost is distributed over the whole of London) obtain a very large fraction of the benefit, and therefore get far more than value for their money. Consequently, the owners of the land are able to

1. The Select Committee on Town Holdings, 1892, who were strongly pressed with this argument, found that the annual charge necessary to maintain sinking funds in respect of permanent improvements within the County of London was less than 2d. in the pound on the then rateable value of London, and this was a very liberal estimate, for it included improvements which, in the opinion of the Committee, were not permanent.

raise rents until the occupiers pay full value for the benefits they receive; that is to say, the owners are able to appropriate the excess value. The occupiers whose rents are raised have no more to complain of than any other inhabitant of London; but the whole of London, occupiers and owners combined, have good reason to complain, because a large part of the money which they provided has gone into the pockets of a few fortunate owners of land. Everyone ought to share alike in the benefit, and the only way to secure this is to take the amount by which rents have been increased and apply it to the reduction of rates over the whole of London. The London County Council has been very successful in doing this in the case of the Holborn and Strand improvement. The Council obtained power to purchase a strip of land considerably wider than the proposed street, and then when the street had been made they were able to let, or they expect to let, the frontages at such increased ground rents as will cover the interest on the money borrowed to effect the improvement. Municipal authorities are sometimes permitted by special Acts to lay a betterment charge on property bettered by public improvements. But this plan does not seem to have worked very well: it was tried in the case of the Tower Bridge Approach, and there is said to have been an arbitration in the case of each property.

Capital expenditure on permanent improvements is certainly an element to be considered, but it accounts only for a very small portion of the increase in the value of land; the great bulk of the increase is due to the growth of wealth and population and to the influx of the people into the towns.

We find then that the two things concur. Increase in the density of population over a limited area drives up the value of land in that area and at the same time

necessitates enormous and continuous expenditure for the purpose of keeping the area habitable. It seems fair that the people who derive increased incomes directly from this rise in the value of land should contribute in a special degree to this expenditure. As a matter of fact they already contribute in a special degree. Any increase in the value of land is assessed and rated, and therefore part of the increase is taken for the public service; moreover when the rate in the pound rises a further portion is taken. Yet, allowing for all this, the owner's share of the increase is in most cases far greater than the share which falls to the public, and unearned increment continues to accrue. The contention—and it is not a very revolutionary one—is that the public is entitled to a greater share of the increase in the value of land than it gets at present. Now if we were to value land separately from buildings and other improvements, we could put a heavier rate on the land than on the buildings, or—which comes to the same thing—we could put a separate and additional rate on land and use the money so raised to reduce the existing rates. Since onerous rates paid in respect of land fall on the owners of land, while rates paid in respect of buildings fall substantially on occupiers, it is clear that by shifting from buildings to land that portion or residue of the rates which is onerous we should relieve occupiers and exact a further contribution from owners, and thus in a very rough way obtain for the public a further portion of the unearned increment.

The great difficulty in the way of putting an additional rate on all land is that some land is not increasing in value. Any scheme for rating land values should aim not only at relieving occupiers, but at distributing the burden fairly as between owners, and this is a matter we shall have to consider very carefully.

But the argument in favour of the separate assessment of land does not rest entirely—perhaps not even mainly—upon the theory of unearned increment. The worst of our present system of rating is that it is bad in its ulterior effects. We need not share the views of those who wholly condemn our rating system. There is very much to be said in its favour, or it would not have lasted as long as it has done. In a rough way it taxes the inhabitants of a district partly according to their means and partly according to the benefit they receive, and it secures for the public some part of the unearned increment. But a tax on dwelling-houses is almost as vicious in its *effect* as the old window tax, for it induces people to restrict themselves in one of the necessaries of life. In Mr. Fletcher Moulton's well-known words, the desire to avoid the rates leads people to take, and therefore builders to build, smaller and poorer houses.[1] Many a man would be willing to pay an extra £5 or £10 in rent, if he did not know that it would entail an additional £2 or £4 in rates and taxes, for which he would get practically no additional benefit. Again, the rates paid on business premises are a tax on enterprise and discourage it. Every time a manufacturer is called on to consider the advisability of extending his premises and enlarging his business by rebuilding or by adding a new storey to an old building or by laying down additional plant, he has to bear in mind that the cost of doing so will be very considerably increased by the rates; and for that reason he may perhaps decline to risk his money. It would hardly be possible to devise a system of taxation more calculated to check improvements. We are driven to the same conclusion as before, that it would be better—instead of lumping buildings and improvements together with land and determining the annual value of

1. *Taxation of Ground Values*, 1889.

the whole—to value the land separately from the improvements and to put a heavier rate on the land and a lighter rate on the improvements.

Finally, there is a special argument for altering our system of assessment and rating as applied to a certain description of land. It is said that much of the land on the outskirts of a town which at present is used for agriculture or grazing, or perhaps is not used at all, is wanted for building, and is held up and kept out of the market by its owners in the hope that it will rise still further in value. It is argued that if the land were assessed not by reference to its present letting value—which may be little or nothing—but by reference to its selling value or to the ground rent at which it could be let for building, then the tax would be so heavy that owners would be unable to keep their land idle and would be forced to build or to sell for building. The same argument is used in reference to land, which although built on is not made full or fair use of; for example, valuable land covered by dilapidated slum property.

A scheme for rating land values must therefore satisfy three tests—it must secure for the public a greater portion of the unearned increment, it must reduce the burden on improvements, and it must be calculated to induce owners to make the best use of their land.

VALUATION

CHAPTER IV.

Valuation.

The technical question whether separate valuation of land and buildings is practicable was the subject of much discussion before the Royal Commission on Local Taxation. Scarcely any witness went so far as to say that separate valuation was impossible, but many valuers of standing told the Commission that it would be a very expensive and uncertain method of valuation. The Majority Report, after reviewing the evidence, proceeds:—"We think that although it cannot be said that it would be impossible to assign separate values to site and structure, especially where comparison could be made with neighbouring property of a similar character which had been recently let, such a system would certainly be attended with considerable uncertainty, complication and expense, and in this respect our conclusions are identical with those of the Select Committee on Town Holdings, who reported 'that the scheme is open to very great objection on the ground of the difficulty and uncertainty of the proposed system of valuation.'" On the other hand, the Minority Report[1] says:—"On the whole we are disposed to think that a valuation of sites sufficiently accurate for the purpose and not inferior to the present valuation of hereditaments could be made without undue labour and expense." In support of this view the Commissioners "refer in particular to the able and detailed argument of Mr. Edgar Harper" (at that time Assistant Valuer, and now Statistical Officer, of the London County Council). Indeed the case for separate valuation as made out before

1. The Separate Report on Urban Rating and Site Values is referred to here and in other places as the Minority Report.

the Commission practically rests on the very valuable evidence given by Mr. Harper.[1] "For myself," said this witness, "if I had to value London I would much prefer to value it in sites than in hereditaments; I could do it more quickly, more cheaply, and I believe more accurately —that is to say, I could obtain greater uniformity." . . . . "I know of no district in the County of London where I could not put my finger on evidence which would enable me to form a very reliable opinion as to the value of any particular site cleared or uncleared." On the question of cost Mr. Harper wrote to the Commission:—"I think an assessment of each separate site in the County of London, if carried out by expert surveyors—not necessarily of the most eminent rank—would probably cost £40,000 if it had to be done under conditions similar to those governing the present quinquennial assessment. This is exclusive of any cost of litigation which might arise out of the valuation." Assuming that the first Report of the Royal Commission on local taxation were adopted, viz., that the county should be the valuation authority, and that the list should be prepared by skilled surveyors, he put the additional cost of assessing site values at no more than £25,000,[2] or rather less than one shilling a piece for the 590,000 hereditaments in London. It is fair to say that this was by far the smallest estimate suggested to the Commission and that some witnesses declared that it would cost millions to value the whole of the sites in London.

But separate valuation of land is not a thing entirely unknown. Land has been valued separately from buildings, not only in Colonial towns like Brisbane and

1. Minutes of Evidence, vol. iv., Q.Q. 22,201—22,524.

2. Mr. Harper explained that £25,000 would be the cost of the first valuation, and that afterwards the cost would be about £5,000 a year.

Wellington, but in two of the greatest cities in the world —in Paris and New York. In 1889 a committee of assessment was appointed by the Hotel de Ville to assess the whole of the City of Paris afresh, first on the basis of annual value and then on the basis of capital value. In the case of capital value the building and land were valued separately and afterwards the two were valued together. Mr. Trevelyan told the House of Commons that the committee accomplished its task in two years, at a cost of between £40,000 and £50,000.[1] The separate valuation of land in New York was commenced in 1903 and completed in the following year.[2] Neither in Paris nor in New York is there a separate rate on land; but in both places there is a tax or rate on the capital value of real property; the separate valuation of sites was undertaken merely for the purpose of obtaining a more accurate assessment of the capital value of the whole of real property.

To a limited extent separate valuation of land is practised even in this country. Our general system of valuation, which is based on the rent at which a property might reasonably be expected to let from year to year,

1. Hansard, vol. cxx., p. 897, 27 March, 1903.

2. The following figures relating to the assessment of New York are taken from *Land Values*, April 1905.

Borough.	Population.	Area Acres.	Land Value. Dollars.	Building Value. Dollars.	Per Cent. Land Value to total.
Manhattan	1,928,866	14,038	2,435,913,737	1,045,738,274	70
Bronx.....	289,326	26,017	150,995,762	85,457,290	63
Brooklyn..	1,313,095	49,680	395,941,515	455,123,072	46
Queens.....	188,010	32,883	70,113,345	51,622,220	57
Richmond.	73,556	36,600	20,023,231	20,844,278	49
Total....	3,784,853	209,218	3,072,987,590	1,658,785,334	65

is in the main an excellent one, because in the great majority of cases the actual rent obtained in the market fixes the value beyond question and leaves no room for conjecture. At the same time there are many cases of difficulty. Even when dealing with dwelling-houses it is not always easy, if the occupier is the owner or holds a long lease, to determine true rental value. But in the case of such special property as clubs, hospitals, schools, railway stations, etc., which are not often let at a rack rent, the difficulty is far greater and it is a common practice to assess the value of the building and the value of the site separately, and then to take a percentage of the total as the rental value. It must be admitted, however, that this does not carry us very far. Whether land can be valued separately from buildings with sufficient ease, accuracy and certainty to justify a separate rate on land can only be determined by experiment. And the experiment cannot be undertaken until some improvement is made in the machinery of valuation in the provinces. In London the Valuation (Metropolis) Act, 1869, provides that a new valuation list shall be made quinquenially so that every hereditament is revalued every fifth year. But outside London there is no statutory obligation to make a new list, and the practice varies very much in different parts of the country. New houses and properties as they come into existence are added to the list, but the assessments of some property in the country may not have been revised since the date of the Union Assessment Act, 1862. Moreover, in London the valuation lists are settled after reference to the surveyor of taxes appointed by the Commissioners of Inland Revenue, and are conclusive for the purpose of Imperial as well as local taxation. In the rest of England and Wales the valuation lists are settled without reference to the surveyor of taxes, and are not

conclusive for purposes of Imperial taxation; local valuation being generally lower than Imperial valuation. The excellent Valuation Bill which was introduced but dropped by the last Government assimilated the practice in the country to the practice in London, and provided for the creation of valuation committees entrusted with wide areas and assisted by permanent officials. Some reform of the kind must precede the rating of land values.

Assuming that separate valuation of sites is practicable, the first question to be determined is the definition of site value. When valuing a site covered by a building the valuer is bound to go through the mental process of separating the site from the building, but is he to leave the building entirely out of account and regard the site as if it were a cleared site, or is he to take the building into account and to have regard to any depreciation in the value of the site caused by the presence of the building. Mr. Harper leans to the latter view. His definition of site value (I gather it from the whole of his evidence) is—the annual revenue which a site is capable of producing if put to the best use to which it can profitably be put having regard to the existing building. The great majority—about 80 per cent.—of sites in the County of London, says Mr. Harper, are fully used by the existing buildings, so that the revenue actually obtained from the sites is substantially the same as the revenue which could be obtained from the sites if cleared. But the remaining 20 per cent. of sites are not fully used either because they are not fully covered by buildings—*e.g.*, Holland Park or the garden of Devonshire House—or because they are occupied by poor or unsuitable buildings. Mr. Harper sub-divides sites which are depreciated by buildings into two classes: (1) those in which the revenue obtained from the whole property (site plus structure) is

less than the revenue which could be obtained from the cleared site; (2) those in which the revenue obtained from the whole property is greater than the revenue which could be obtained from the cleared site. As regards Class 1, Mr. Harper says that re-building so as to make full use of the site would clearly be a profitable undertaking, and therefore he would assess these sites at their full value. But as regards Class 2, he says that the depreciation in the value of the site caused by the existing building should be taken into account because re-building would not or might not be profitable. It would be unfair, he says, to assess land at a value which the owner could not realise except at a sacrifice. As an example he instanced a row of houses in Shaftesbury Avenue. "The site value of each if cleared would be worth at least £40 per annum, but the rateable value of the existing premises should now be about £60. Deducting from this £35, the annual equivalent of structural value, would give £25, instead of £40, as the fair assessment of the value of the site subject to existing conditions."

This is a consistent and attractive way of regarding site value, and one that avoids many cases of possible hardship. But it would be very difficult in practice to take account of existing buildings. There would be many cases in which the advantage of rebuilding was a matter of opinion, many cases on the line in which a slight shifting of the line would make a great difference in the assessment of the site, and this would lead to appeals and litigation. The chief objection, however, to taking account of buildings will appear more clearly later. It is that if we put a heavy tax on *future* increase in the value of land, the starting value from which we begin to measure increase *must* be the value of the cleared site. Otherwise there would be great trouble; for if an old building which depreciated the

rental value of its site were pulled down and replaced by a new building which brought out the full value of the site, an increase in site value would be registered and rated, although it was entirely due to capital expenditure. This would discourage re-building, and would be particularly hard on investors who had purchased old property with the intention of re-building, and had given a high price on account of the value of the site. Consequently, while recognising the advantages of Mr. Harper's definition,[1] I think we shall be obliged to adopt the simpler plan and define site value as the value of the cleared site; I believe this is the definition adopted in all countries in which separate valuation of land is practised.[2] We must, however, look at each site separately, that is to say, we must take the site of each separate rateable hereditament by itself, and while regarding it as a cleared site we must take account of the manner in which surrounding property affects its value. It would be impossible to regard the whole of the sites in a town, or in a district, or street, as all being cleared at the same time. It would be impossible, for example, to

1. In a private letter which he allows me to use Mr. Harper writes: "You will not expect me to concur in every word of your interpretation of my evidence; but it is very fairly put, and the modifications I should like to make in it if it stood alone are to some extent brought out in the details which follow. One thing, however, I should like to say, viz., that where a site was depreciated in value by the building upon it, the assessment in the valuation list should, in my judgment, be a cleared site value, and that any allowance made to the taxpayer should take the form of a special remission, more or less an act of grace. This would secure complete accuracy of valuation for all purposes." This meets the objection.

2. In New Zealand this value is called the "unimproved value" of land, but the term is not a good one, for the value of a cleared site includes the value added to the land by roads and sewers: there is no such thing as an unimproved value in a town. It is sometimes called the "public value" of land, and in the case of a site in the centre of a town where the roads have been maintained for many years by a public authority the term is generally correct, but in the case of a newly developed estate, where the roads have been constructed recently at the expense of the owner of the land, it is not correct.

value a site in a mews or back street in Westminster on the assumption that the whole of the land in the neighbourhood was cleared and ready to be covered with palatial flats. Moreover, in the case of certain classes of property, it may be necessary to take account of the purpose for which the land is used. The answer to the awkward question, What is the site value of half a mile of railway cutting? is, I think, that the land must be valued, not as the site of buildings, but as the site of a railway line and assessed accordingly. But when in the future a railway company buys land which is subject to the site value rate, the purchasers cannot be allowed to reduce the burden on the land by altering the use of the land; they must buy the land subject to the charge upon it. No doubt some difficult questions will arise in connection with the valuation of railways, and of gas works, and docks and similar properties.

The next question is, whether, in assessing site value we ought to have regard to legal restrictions on the use of land. Legal restrictions may be divided into two classes. In the first place, there are restrictions created by the duty which the owner of one site owes to the owner of another site; these restrictions are usually of a permanent character. In the second place, there are restrictions created by the legal relations of different persons interested in the same property, and these are usually of a temporary character.

The first class includes restrictive covenants, easements, ancient lights and the like. Mr. Harper said that the initial valuation could not take account of these complications because there would be no means of ascertaining their existence. After the valuation had been made any person aggrieved would have an opportunity of stating his case, and then the circumstances

could be investigated and an adjustment made. In regard to dominating easements, such as ancient lights, Mr. Harper said that the assessment of the servient site should be reduced and the assessment of the dominant site increased accordingly. In regard to restrictive covenants and building-ties, he pointed out that such restrictions are intended not to reduce but to maintain the value of a site, and that only in rare cases would there be any trouble.

The second class of legal restrictions for the most part spring out of contracts made between lessors and lessees. A lessee usually covenants not to make any substantial alteration in the property without the consent of the lessor, and of course the lessor is unable to make any alteration without the consent of the lessee. Now in the case of a long lease, say a London building lease, granted for 99 years, the character of the district may alter entirely long before the term of the lease expires, the site may become very valuable and the building may be quite unsuited to it. Yet neither the lessor nor the lessee, nor both together, can take full advantage of the increase in site value unless they come to terms with one another. Mr. Harper apparently would pay no regard to this class of restrictions. He says: "Where you have a freeholder deriving say £5 a year from property, and a lessee deriving £25, making a total of £30, and by pooling their interests they could derive an income of £100, it is so obvious that they could easily come to terms that no injustice would be done to them." If they did not choose to come to terms he could see no reason why the community should suffer in taxation.

At the same time, entirely to neglect restrictions due to leases might give rise to cases of some hardship. It is proposed, as we shall see, to collect the site value rate from the occupier, and after the expiration of existing

contracts to allow him to deduct the rate from his rent: that is to say, he will not be allowed to deduct anything from a rent fixed before the date of the Act. Now before the date of the Act an occupier may have taken a seven or fourteen years' lease of a property the site value of which is out of all proportion to its rental value—say a house in the suburbs with a very large garden. It would be unfair to make such a lessee pay on the full value of the site, for he could not make use of the full value; and in most cases his superior landlord would merely stand aside and insist on the contract. The difficulty could be met by a clause providing that in the case of a lease made before the passing of the Act and with an unexpired term of, say, not more than twenty-one years to run, the site should be assessed subject to existing conditions. In the case of a lease made after the passing of the Act the rate would fall on the lessee only in so far as it was paid in respect of increase in value accruing during the term of the lease, and though the lessee might not be able to make full use of this increase, he would benefit so substantially that no injustice would be done if he were rated on the full value of the site.

Finally, there is the question whether, in valuing sites, we should proceed on the basis of capital value or on the basis of annual value. If capital value is chosen we could either put a small rate directly on capital value or we could take a percentage—three or four per cent.—of capital value, call the result annual value, and put a proportionately higher rate on that. If a special fixed rate is put on land it does not matter what percentage of capital value is taken to represent annual value, for the rate could be adjusted to suit it. A rate of 1d. in the pound on capital value is equivalent to a rate of 25d. on four per cent. of capital value or to a rate of 33d. on three

per cent. of capital, and it makes no difference which of the three is chosen.

The alternative to capital value is the annual revenue which the land is capable of yielding if put to the best use.

When we come to deal with uncovered land on the outskirts of a town it will make a vast difference whether we choose capital value or annual value as our basis, for such land acquires a prospective building value, that is, a capital value far greater than an agricultural value, many years before it is ripe for building and is capable of yielding a building rent. But, as regards land which is built on or is ripe for immediate building, it makes little difference whether we chose capital value or the annual revenue which the land is capable of yielding. It makes some difference, because land in the centre of a town is worth a greater number of years purchase than land in the suburbs, but either capital value or annual value would serve, and it might suit some towns to adopt the one and other towns to adopt the other.[1]

Land Values in London.

In the year 1896 the valuers of the London County Council estimated the annual value of the 74,839 acres within the boundaries of the County of London to be £15,000,000. By "annual value" is meant the rent which the land is capable of yielding: uncovered land if ripe for building was valued at a building rent, if not ripe for building was valued at an agricultural rent. In making the estimate each parish was taken separately, the

1. It is preferable that the definition of site value should be the same all over the country; and in any case the definition must be uniform over each separate rateable area. "It does not seem practicable," says Mr. Harper, "to use both annual value and capital value as bases of assessment for the same tax; and unless the former is to be wholly dropped there would be grave danger in adopting the latter in any special case." Royal Commission on Local Taxation, Minutes of Evidence, vol. iv., app. vii.

area occupied by streets and other public places was deducted, and then the total value of the land in the parish was arrived at by a method of approximation. Mr. Harper, one of the valuers, told the Royal Commission on Local Taxation that he felt great confidence in this rough method, and did not think the result could be far wrong.

The site value of London has grown considerably since 1896. Mr. Sidney Webb, in his evidence before the Select Committee on Town Holdings, 1891, said that the annual value of land in London was increasing at that time at the rate of £300,000 a year, and the statistical officer of the London County Council, in his elaborate memorandum prepared for the Royal Commission on Local Taxation, gives some figures which are consistent with this estimate.[1] A comparison of the increase in the rental value of London discovered by the quinquennial valuations of 1896, 1901, and 1906, with the increase of rental value in intervening years, leads to the conclusion that for the last ten or fifteen years the annual value of land in London has been increasing at an average rate of about £350,000 a year. If, then, we take £3,000,000 as the increase of site value in the decade 1896—1906, probably we shall be within the mark. Adding this to Mr. Harper's figure, we get £18,000,000 as the site value of London at the present day. The valuation lists (subject to appeal) prepared for the quinquennial assessment of 1906 give the rateable value of London as £43,486,436, so that the site

1. The rateable value of property in London *built before* 1870–71 was in that year £19,650,743, and in 1897–98 had increased to £25,131,840. Mr. Gomme; Royal Commission on Local Taxation, Minutes of Evidence, vol. i., app. xxvii.

value of London is about 40 per cent. of the rateable value.[1]

Information as to land values outside London is so meagre that it is not worth while to attempt an elaborate estimate of the site value of the whole country. The London figures, however, will enable us to make a rough guess at the site value of other urban areas, provided that we adopt the same definition of site value, *i.e.* the annual revenue which the land is capable of yielding.

The rent obtained for land in London is exceptional, and (though there are many circumstances to be taken into account) it is not likely that the proportion of site value to rateable value in any other large area is as high as it is in London. If we may take the site value of urban areas in England and Wales outside London to be one-third of their rateable value, then since the rateable value of these areas in 1904 was £104,638,514, their site value that year was £35,000,000. The increase in the rateable value of the same areas between 1894 and 1904 was roughly £30,000,000,[2] and if one-third of this may be reckoned as increase in site value, then site value must have been increasing at the rate of about £1,000,000 a year. Adding these figures to the figures for London, we get about £55,000,000 as the site value of all urban areas in England and Wales, and £1,300,000 as the yearly increase in site value.[3] This estimate at least shows the order of figures which may be expected. There is good reason to believe that the value

1. In New York it was found that the capital value of land was as much as 65 per cent. of the total capital value of rent property. But as land is worth many more years purchase than buildings it is to be expected that a percentage based on capital values should be much higher than a percentage based on annual values.

2. A small portion of this increase is due to the conversion of Rural Districts into Urban Districts.

3. The corresponding figures for the whole of the United Kingdom (including the Urban Areas of Scotland and Ireland) are approximately £62,000,000, and £1,500,000.

of urban land doubled itself in the last thirty or forty years, and if the present rate of increase is maintained it will double itself again in the next thirty or forty years.

At the same time, it is clear that we can never place the whole of the rates on land.[1] In an average urban area the amount raised by rates is about equal to the land value, both being somewhere about one-third of rateable value. Consequently if land alone were rated a rate of twenty shillings in the pound on the present value of land would be required. But the value of land would shrink—if the incidence is on owners, *ex hypothesi*, must shrink—under such a rate. In that case a heavier rate—say, thirty shillings per pound of rateable value—would be required to raise the same amount, and this would cause still further shrinkage and necessitate a still heavier rate, and so on.[2] Even if it is conceivable that at the present time we could pay the whole of urban rates out of urban land, we could not do so for long because of late years the annual increase in the amount raised by rates has been considerably greater than the annual increase in the value of the land. We must always remember that the revenue derived from land is only a very small fraction of the £1,800,000,000, to which our national income is said to amount.

1. The Scotch witnesses before the Royal Commission repeatedly stated that their ultimate aim was to transfer the whole of the rates to land. Mr. Charles Booth has suggested that the transference should be spread over ten years, *i.e.*, that in the first year the rates should be assessed $^{1}/_{10}$ on site value and $^{9}/_{10}$ on total rental value, that in the second year the proportions should be $^{2}/_{10}$ and $^{8}/_{10}$ and so on.

2. It is assumed here that the rate is levied on the net value of land, *i.e.*, on the rent obtained (or obtainable) less the rate paid by the owner. It would be possible, however, to levy the rate on the gross value, *i.e.*, the net value plus the rate, and thus to get a stable assessment. If, however, the selling value of land were chosen as the basis of assessment, this would be more difficult, as the amount added to selling value would have to be the capitalised value of the annual rate levied; a rather awkward quantity to introduce.

THE SCHEME OF THE ROYAL COMMISSION

CHAPTER V.

The Scheme of the Royal Commission (Minority Report).

I.

The preceding chapters have endeavoured to show that separate assessment and rating of land values is sound in principle, and that the technical difficulty of separate valuation is not insuperable. In the present and following chapters some definite schemes for rating land values will be considered.

The scheme recommended in the Minority Report of the Royal Commission on Local Taxation is a very simple one. It involves—(1) a separate assessment of the value of land in urban areas; (2) a special, additional, and fixed rate to be imposed on this value. It will be understood that the new system of assessment and rating is not to take the place of the existing system, but is to exist alongside of it and in addition to it. According to the scheme the rate is to be imposed, not only on land covered with buildings, but also on uncovered land, or, at any rate, on such uncovered land as is ripe for building. For the present, however, I shall exclude uncovered land, and assume that the rate is imposed only on land which is built on. As regards the amount of the rate, Mr. Trevelyan, in his Bill of 1902, proposed that it should be 2s. in the pound on the annual value of land, while Dr. Macnamara, in the Bill of the following year, suggested 1d. in the pound on capital value. As it is easier to deal with annual values, I will adopt for the purpose of argument Mr. Trevelyan's figure. As regards the collection of the rate: it is to be paid by the persons who pay the existing rates,

that is to say, generally by occupiers, but in the case of flats and properties of small value by compounding owners. This, however, is subject to the following provision. Anyone who holds land under a lease or agreemade *after the passing of the Act* is entitled to deduct from his rent so much of the land value rate paid by him as is paid in respect of the land value as assessed at the time of the making of the lease or agreement.[1] It will be seen that this safeguards all existing contracts.

The rules for deduction from rent are very carefully drawn in Dr. Macnamara's Bill (a copy will be found in the appendix), but they will be best understood from an example. After the passing of the Act a ground landlord A lets land to B on a building lease of 99 years, the annual value of the land being £300. B builds a house on the land and then lets the property to C for the whole term of the lease, the land value being still £300. C occupies the house for twenty years and then sublets to D, the land value at this date being £400. D is still occupying, say in the year 1930, at which time the land value is £450. In this year D will pay land value rate to the amount of £45 (2s. in the pound on £450), but will deduct £40 from the rent he pays to C. C in his turn will deduct £30 from the rent he pays to B, and B will deduct the same amount from the rent he pays to the ground landlord A. The intention is that each person shall pay the rate on the land value of which he gets the benefit. Thus D pays £5 because the land value has increased by £50 since his rent was fixed; C pays £10 because he is assumed to draw a rent which is £100 more than the rent he pays; B pays

1. The recommendation of the Minority Report was that *half* the rate should be deducted from rent. In Dr. Macnamara's Bill it is provided that the whole rate shall be deducted. The difference, however, is of little importance for the reasons stated below; and this is admitted in the Report.

nothing because he simply builds the house and then immediately transfers the property to C, and the land is assumed not to have increased in value in the interval.[1] Finally A pays £30 because he draws a rent of £300 in respect of his land. If, however, A's contract with B were made before the passing of the Act, and B's contract with C were made after the passing of the Act, C would be entitled to deduct £30 from the rent he pays to B, but B would not be entitled to deduct anything from the rent he pays to A. This, as we shall see, is one of the weak points of the scheme.

A great deal is made of this system of deductions, but so long as existing contracts are respected it is of little real importance. When a new contract is made the rate, in so far as it places an additional burden on land, will fall on the owner of the land, whether or not it is formally deducted from rent. If the deduction were not allowed the rent paid would be so much lower; and it makes no difference to an occupier whether he deducts the rate or whether he pays the rate himself and gets an equivalent reduction in rent. If no deduction were made the incidence of the rate would in the long run be substantially the same as if the deductions were made. In practice, however, it is better to allow the deduction, for the person who really pays the rate should be seen to pay it, and something must be allowed for custom and economic friction; an occupier when bargaining with his landlord will be fortified by his statutory right to deduct.

The real question is, to what extent will the new rate effect a transference of burden from buildings to land? The money raised by the land value rate of course will allow of a reduction in the general rates. For example,

1. The builder frequently improves the land and creates an additional ground rent running for the term of the lease.

if in any urban area land value is one-third of rateable value an additional rate of 2s. in the pound on the land will allow a reduction of 8d. in the pound in the general rates, and the net result will be an increase of 1s. 4d. in the rates on land, and a decrease of 8d. in the rates on buildings. The 1s. 4d. will eventually fall on owners of land, and will not affect occupiers, but every occupier will gain to the extent of 8d. in the pound calculated on the annual value of the building he occupies.[1] It is evident that while all occupiers will benefit in some degree, those who live on the cheapest land and whose rent is chiefly a building rent will benefit most proportionately. The rent of a house in Grosvenor Square is possibly three-quarters land rent and one-quarter building rent, so that the occupier of this house will benefit to the extent of 8d. in the pound calculated on a quarter of his rent. But the rent of a small house in the suburbs is perhaps one-seventh land rent and six-sevenths building rent, so that the occupier of this house will benefit to the extent of 8d. in the pound on nearly the whole of his rent. And this is fair, because our present rating system favours occupiers of valuable land exceedingly since as a class they are able to roll the greater part of their rates and of any increase in the rates on to their landlords. It is only fair that the people who suffer most when rates increase should gain most when they decrease. The Minority Report puts the same point in a more general way when it says that the rate will increase the burden at the centre of a town where the valuable land is, and

1. Owners would no doubt gain something by the reduction of rates on buildings, but against this must be placed the loss caused by competition due to an increased rate of building. Possibly the inner suburbs of a town would suffer most from this competition; this seems to have been the experience of Australia. The centre of the town might even gain, for as a town grows, value tends to be continuously piled up on the central sites.

will reduce the burden at the outskirts. It must be admitted that there are some objections to this. The erection of dwelling-houses on very valuable land is practically confined to London. In other towns the valuable central sites are occupied by business premises, and the residential quarters lie outside where land is cheaper; and in the main this is true of London also. It is said the effect of the new rate will be to relieve dwelling-houses at the expense of business premises, and that as many traders own their premises or hold long leases the result will be an increased tax on trade. For a time no doubt this will be so, and the criticism must be allowed some weight; but eventually as the leases fall in and land is transferred by purchase, the burden will fall on the owners of the land as such; and from the beginning manufacturers will be relieved by the reduction of the rates on plant and machinery. In short, the scheme has all the advantages which necessarily flow from a transference of rates from buildings to land. It exacts a further contribution from land owners, and therefore secures to the public a greater portion of the unearned increment. It relieves occupiers, promotes the building of larger houses, reduces the tax on improvements and encourages enterprise generally.

But now let us look at the scheme from the land owners' point of view. They point out that, although urban land as a whole is increasing in value, yet there is a considerable quantity of land which is stationary in value and some land which is even decreasing in value, and they say that it would be exceedingly hard to impose an additional rate on this land. It may be answered that even if the value of the land is not increasing at the present moment it has increased in the past, and that the amount for which it could be sold represents so much unearned increment

which has accrued in past years. But this brings us to the exact point where the whole difficulty lies. It is impossible without doing great injustice to secure for the public the unearned increment which has accrued in past years; because in too many cases those who have reaped the harvest have sold their land and cannot now be reached. Land is bought and sold every day. The persons who to-day own the land of Manchester or Liverpool are not the persons who owned it fifty years ago or even ten years ago. Recent purchasers have paid full value for their land. To tax a *purchaser* of unearned increment is absurd; the *vendor* is the person to tax, and he cannot be taxed after he has sold his land. Take this case, which is by no means a far-fetched one:—Twenty years ago A bought a City site for £8,000; this year A sold the site to B for £20,000, pocketing unearned increment to the amount of £12,000. Now, assume that next year a site value rate of 2s. in the pound is imposed of which 1s. 4d. is a net burden on owners, and see what happens. A has gone off with his £12,000 and cannot be made to pay anything at all; but the income which B derives from the land will be reduced by nearly seven per cent., although B has gained nothing by unearned increment. Moreover—and here we get to the root of the matter—suppose that in a few years circumstances compel B to sell the land to C. Since the income which the land can produce is reduced by seven per cent., its capital value must be reduced in like proportion and (assuming that the land has not increased in value) this unfortunate person B will sell his land at a loss of £1,300. The rules of incidence are not the exact laws of arithmetic, but this is substantially what will happen: Although but a temporary owner B will pay the whole capitalised value of the rate simply because he happened to be holding the

land at the time when the rate was first imposed; past owners such as A will pay nothing at all, and future owners such as C will pay only on future increase of value.

And it is not only a rich man here and there who will suffer. Every year urban land to the value probably of many millions sterling changes hands by purchase. No exact or even approximate figures can be given, but some idea of the extent of transactions in real property may be gathered from the fact that in the year 1903—the last for which the returns are complete—the immense sum of £9,959,555 was lent on mortgage by Building Societies, presumably with the object of enabling members of the societies to build or acquire land and houses. As the amount lent would not perhaps on the average exceed half of the security it would appear that the aggregate value of the land and buildings purchased in one way or another by persons of small means with the aid of Building Societies must have been something like £20,000,000 in this single year. I do not suggest that all these purchasers would suffer from an additional rate on land. Some perhaps would gain as occupiers more than they lost as owners; but some of the most thrifty of investors would lose a portion of their savings. Let anyone look at the weekly returns of the sales at the London Mart in Token-house Yard and say whether he thinks it fair to single out for exceptional taxation the purchasers of the property included in those returns. As a matter of fact, it cannot be denied that we are doing something like it at the present time. In the five years, 1898—1903, the average rate in the pound in London increased by 1s. 2d. and the average rate in the pound in the whole of England and Wales increased by nearly 1s. This additional rate is paid both on buildings and on land, and in so far as it is onerous and is paid on land it will fall on the persons

who held land during these five years. And the rates have increased since 1903. There is not the least doubt that in many towns an additional rate of two shillings in the pound has been imposed on land in the last eight years. In fact, the thing which when proposed rouses so much opposition and which is open to so much criticism has been done, and not very much said. But this very fact weakens the case for a special rate on land. Owners of land which is increasing in value may plead not unreasonably that it is enough that they should be left to their fate under the existing system; while owners of land which is stationary or decreasing in value may say that they have been very badly treated already, and that it would be unjust in the extreme to inflict further hardship upon them by special legislation.

The difficulty of imposing an additional rate on land is most apparent when we consider the rent charges of the North of England (or the feu duties of Scotland). Instead of selling land for a capital sum it is customary in many northern towns to convert the price into a perpetual annual charge, sometimes called a chief rent, fixed in amount and secured on the land and on any building erected, or to be erected. A recently created chief usually represents with fair accuracy the full annual value of the land on which it is secured; but if the chief rent has been created many years ago, and the land has since increased in value, the chief rent may be only a very small portion of the annual value of the land; or, on the other hand, if the land has declined in value, the chief rent may be more than the annual value of the land. Since a chief rent is fixed in amount for ever and there is no reversion attached to it, a purchaser obviously can never be an owner of unearned increment, though the person who first created the chief may be. Chief rents are

bought and sold like stocks and shares. They are secured, not only on the land, but on the building on the land, and therefore are a very safe form of investment, and fetch a high price. They are a favourite with trustees and persons of small means who are satisfied with a low rate of interest provided their capital is secure. Great blocks of them are held by many educational and charitable institutions. These investors are not owners of land at all, except in the sense that their investments are secured on land, and everyone in his senses will agree that it is impossible to put a special tax on these investments.[1] It would be just as reasonable to pick out, say, London and North-Western Railway Stock and put a special tax on that. Anyone can see that the effect of such a tax would be, not only to diminish the income produced by the stock, but to lower the price of the stock. The tax would fall entirely on the holders of the stock at the time when the tax was first imposed, for no one would purchase it unless its price were reduced by the equivalent of the tax.

The scheme we are considering attempts to get over the difficulty by means of the clause saving existing contracts. The site value rate is to be paid in the first instance by the occupier, and he is not allowed to deduct the rate from his rent until the contract which fixed the rent has expired. Similarly an intermediate owner who pays a ground rent is not allowed to deduct the rate from the ground rent until the contract which fixes the ground rent has expired. Now a chief rent is fixed for ever; the contract never expires; and therefore the rate can never be deducted from a chief rent already in existence.

So far so good; but someone must pay the rate. If the

1. It would be peculiarly hard to rate owners of chief rents or feu duties already created, for they would gain nothing (as owners) by the reduction of the general rates.

person who receives the chief rent does not pay the rate then the person who pays the chief rent must pay the rate and must pay it for ever on a land value which does not belong to him. If the land were increasing in value there would be nothing unfair in this, for this person would get the benefit of the increase in value; and if he were putting unearned increment in his pocket he could not complain of paying a moderate land value rate, even if his assessment was not a very logical one. But take the case of the many builders and investors in the suburbs of Manchester who have recently bought land for building subject to paying a chief rent. A great deal of this land is on the top of its value when the purchase takes place. At any rate for many years afterwards its value will be stationary or perhaps will decline somewhat as the suburb is built up and becomes a less desirable place of residence; what its ultimate value will be no one can foretell. It seems very hard to impose a special site value rate on these purchasers who pay full rent for their land and to exempt the person who receives the rent and who may be a land owner who has benefitted greatly by unearned increment.

We might of course exempt from the rate the value of land represented by existing chief rents; but that would be unfair to occupiers and lessees of other land. Just as good a case could be made for exempting a London ground rent secured by a 99 years' lease of recent date; for (if existing contracts are to be inviolate) the leaseholder will have to pay the rate for 99 years in respect of a land value for which he pays rent.

It would be possible—as the London County Council originally suggested—to commence with a very small rate, say 4d. or 6d. in the pound, and gradually to add to it until a limit of 2s. or more was reached. But the future

additions—or the present value of the future additions—would fall by anticipation on the present owners of land. A widely-advertised special rate imposed by Statute with notice that it would increase, would lower the value of land a great deal more than an equal increase in the ordinary rates, and probably would lower it a good deal more than the burden really warranted. If the additions were spread over a very long period of time the loss to present owners would not be so great, but on the other hand the income derived from the rate would increase very slowly.

Anyone who attempts to place an *additional* rate on the present value of land will find himself in great difficulties. Whatever he does and to whichever side he leans, in a multitude of cases he will tax the wrong people.

II.

The foregoing considerations lead to the conclusion that if a separate rate is imposed on land, it must not be an *additional* rate; that is to say, it must be accompanied by an equivalent reduction of the existing rates. The Minority Report of the Royal Commission on Local Taxation in some degree recognises this, for it concludes: "We would point out that if a moderate proposal to effect these objects is ever to be made, it would be specially opportune to make it at a time when under the schemes which we are putting forward, the burden of rates in towns will be appreciably relieved. By making use of this opportunity it will be possible to introduce a sound and advantageous principle into our local taxation without disappointing legitimate expectations. More especially, since anything which tends to relieve the pressure of local taxation, or to prevent the growth of it, must ultimately,

sooner or later, benefit the owners of site values, it seems desirable that any increased provision made by the State in aid of services locally administered shall be accompanied by some make-weight in the shape of an owners' site value rate."

We have seen that in an area in which land value is one-third of total rateable value a site value rate of 2s. in the pound would reduce the general rates by 8d. or 9d.[1] If, then, we could obtain from other sources sufficient money to reduce the general rates by another 1s. in the pound, we could set off a total reduction of, say, 1s. 9d. as against the special site value rate of 2s. The net result therefore would be an increase of 3d. in the rates on land, and a decrease of 1s. 9d. in the rates on buildings. In that case—assuming that rates on land fall on owners and that the whole of the rates on buildings fall on occupiers—a small additional burden would be cast on landowners, while occupiers would obtain substantial relief. There can be little doubt, however, that landowners would obtain something by so large a reduction in the rates on buildings, and probably they would gain more than enough to compensate them for the small additional burden on land.

It may be said that this is not rating land values at all, but is merely maintaining the present rates on land and reducing the rates on buildings by means of other taxation. That is substantially what it comes to; but that in itself may be a very valuable reform. The great objection to substituting other taxes in place of rates has always been, that to do so is to make a gift to present owners of land, a gift equal to the capitalised value of the rates displaced

1. The reduction would be more than 8d. because of the existing leakages due to empty houses, abatements allowed to compounding owners, etc.

(in so far as they are paid on land). But given separate valuation of land the difficulty no longer exists, for we can put a separate rate on land to counter-balance the gift. Moreover the new rate on land will not be precisely the same as the old one, for land will be assessed to the separate rate on the assumption that each site is a cleared site capable of being put to its full use, with the consequence that in some cases assessments will be higher than before. This matter has already been discussed, and I need not go into it again; but it is worth while to notice that one difficulty which has been raised is completely removed by the scheme proposed.

It is a weak point in every method of assessing land values yet suggested, that in many cases the assessment must necessarily include the value of private improvements. For example, site values on a newly-developed building estate must include the capital expended in making the roads and sewers and in preparing the land for building; and this sometimes amounts to a very large proportion of the whole value of the land. To take another example: the site value of the docks and quays occupied and owned by the Manchester Ship Canal Company has been created by enormous expenditure on the part of the Company. To impose an additional rate on these values would be to offend against all the principles which are invoked to justify the rate; and if we were really putting an additional rate on land, these cases would be very difficult to deal with. But if we compensate for the additional rate by means of a reduction in the existing rates, no injustice is done; for what we take with one hand we give back with the other; at any rate this is so in every case in which the value of the cleared site is not greater than the value of the site *rebus sic stantibus*.

The objection to the scheme is that it requires money.

From what source are we to obtain the money with which to reduce the existing rates? Since personal property cannot be taxed locally, and since a local income tax or death duty is impracticable, there is only one source from which the money can come—Imperial taxation.

The reference in the extract from the Minority Report quoted above to "the schemes we are putting forward" under which "the burden of rates in towns will be appreciably relieved" is not quite clear. The Majority Report and the various Separate Reports all recommend the grant of further Imperial aid to local authorities; but there is much difference of opinion as to the manner in which the further aid should be given. The whole subject of Imperial grants and subventions in aid of local rates is urgently in need of review. The subject is a very complicated one, but it is so intimately bound up with the rating of land values that some consideration of it cannot be avoided.

In the first place it is necessary to remember that the central Government has taken over some services, the cost of which formerly fell on the rates. The most notable instance is the Prisons Service which was taken over by the Government in 1878. Again, the whole cost of the police in Ireland is paid by the Government out of Imperial funds. The Government also pays the cost of administering the Diseases of Animals Acts, and contributes to the cost of Reformatories and Industrial Schools. The Government also pays rates on Government property,[1] and makes various small payments in return for special services.

In addition to these payments, Parliament before 1888

1. Rates paid on Government property can hardly be regarded as a grant in aid, even though the payment is voluntary; at the same time they represent a payment of Imperial funds to Local Accounts.

voted each year grants in aid of particular local services; the principal votes being for the police, pauper lunatics, main roads, and the salaries of poor law union officers. In 1888 and 1890, at the time when local government was reconstructed and took its present form, Mr. Goschen, who was Chancellor of the Exchequer at the time, discontinued these grants in aid to the amount of £2,900,000, and in place of them assigned to local authorities the produce of certain specified taxes. The assigned taxes, which produced an amount far exceeding the discontinued grants, were (1) the majority of the excise licences (wine, beer and spirit licences, dog licences, game and gun licences, carriage licenses, etc.); (2) one half of the probate duty (when the probate duty was abolished by the Finance Act, 1894, an equivalent grant out of estate duty was substituted); (3) a sur-tax on beer and spirits. In this legislation Ireland was treated on a different footing to the rest of the United Kingdom; no grants to Ireland were discontinued, and on the other hand Ireland did not get the excise licences.[1]

The net result of the legislation of 1888–90 was that whereas in 1885–86 the total amount of Imperial subventions was £5,775,523, in 1891–92 it was £10,927,020; showing a gain of over five millions.

The next considerable increase in Imperial subventions occurred in 1896, when, by the Agricultural Rates Act (a temporary Act which has since been renewed), the Government undertook to pay out of Estate Duty one half of the poor rate and of certain other rates paid in respect of agricultural land in England and Wales: the

1. The position of Ireland is peculiar: there is practically no police rate in Ireland and no education rate, both police and education being paid for out of Imperial funds. From time to time various special grants have been made to Ireland.

grant is a fixed grant and is determined by the rates paid in 1896. Consequential Acts were passed for Scotland and Ireland, and the result of the legislation has been to increase the amount of Imperial subventions by over two and a quarter millions. In 1899 a small portion of the grant out of Estate Duty was applied to the relief of rates on tithe-rent charges attached to benefices, but this involved no additional grant out of Imperial revenues.

In the meantime the Government grants in aid of Education had been steadily growing; and as (except in Ireland) all elementary schools are now placed on the rates and the whole of the Education grants are now administered by local authorities, these grants must be regarded as grants in aid of public local services.

Altogether, in the year ending March, 1906, the total amount of Imperial subventions for the United Kingdom was £30,380,000; of which England and Wales obtained £22,750,000, Scotland £3,045,000, and Ireland £4,584,000.

The amount for England and Wales is made up as follows[1] (the figures are given to the nearest thousand):—

I.	£
Rates on Government Property	531,000
Poor Law Auditors—Salaries, expenses, etc. ...	23,000
Clerks of Assize—Salaries and expenses	16,000
Prisons, Reformatories, etc.	810,000
Diseases of Animals—grants in aid	29,000
Metropolitan Fire Brigade	10,000
Other payments	14,000
Total	1,433,000
II.	
Education grants	12,836,000

1. The figures are taken from the Finance Accounts of the United Kingdom, House of Commons Papers No. 208 of 1906; and from the Return on Public Income and Expenditure, House of Commons Papers No. 266 of 1906.

III.

Payments to Local Taxation Account—	
Sur-tax on Beer and Spirit	1,115,876
Excise Licences	3,753,156
Share of Estate Duty—	
(*a*) Under Finance Act, 1894... ...	2,284,517
(*b*) Under Agricultural Rates Act..	1,327,092
Total	8,480,644
Grand Total	22,750,000

The money paid into the Local Taxation Account is distributed among local authorities in a very complicated way. The amount paid under the Agricultural Rates Act is distributed by the Local Government Board directly to the spending authorities named in the Act; and the small amount of estate duty allocated to the relief of rates on tithe rent-charges is distributed in the same way. As regards the remainder of the money, the Local Government Board intercepts a portion (chiefly for the purpose of police pensions) and pays the balance to the Councils of counties and county boroughs. Each county and county borough gets the licence duties paid within its area; but the sur-tax on beer and spirits and the balance of estate duty are—for want of a better method—distributed among the counties and county boroughs in the proportions in which the old discontinued grants were distributed. When a new county borough is created some arrangement is made with the county within which it is situated. The Councils having got their money, are obliged to devote the greater part of it to certain specified services—chiefly to the services to which the old grants in aid were appropriated, and in particular to the police service. The residue is devoted partly to technical education and partly to general relief of rates.

The Majority Report of the Royal Commission on Local Taxation makes two proposals for the further relief of rates: (1) An increase in licence duties and an extension of the system of trade and establishment licences; and (2) the transference of the inhabited house duty to local authorities. The first proposal indicates a very promising source of revenue; but the second by no means commands universal assent. At first sight there seem to be very strong reasons in favour of transferring the house duty (which in 1905–06 produced £1,886,000) to local authorities; for it is nothing more than a graduated rate on dwelling-houses of a rental value over £20, and it could easily be collected along with the rates. The great objection is that the benefit would be most unequally distributed among local areas, and that the wealthy places which need relief the least would gain the most. Take, for instance, the County Borough of West Ham, poverty-stricken and urgently in need of relief; how much would West Ham get out of the inhabited house duty? We know as a matter of fact that Mr. Goschen in 1871 originally proposed to transfer the duty, but abandoned the proposal because he found that the results would be very unequal in different counties.[1]

Moreover, to transfer the house duty would be to continue and extend the system of assigned taxes which, in recent years, has met with much adverse criticism. The objects which Mr. Goschen had in view when he established the system were: (1) to separate local finance from Imperial finance; (2) to present local authorities with an expanding revenue which would prevent them making fresh demands on the Imperial treasury; (3) to secure a contribution from personal property to local taxation. After an experience of fifteen years it can hardly be said that

1. Hansard, 20 April 1888, cccxxv., 123.

any one of these objects has been achieved. In order that personal property might seem to contribute to the rates, Mr. Goschen selected as one of the assigned taxes one-half of the probate duty, that duty being paid on personal property only. The probate duty is no longer in existence, and the grant now comes out of estate duty paid on personal property. But to hand over to local authorities a tax levied on personal property is, to a large extent, a matter of appearance only; for it makes not the slightest difference to ratepayers or to taxpayers whether a tax on personal property is handed over, or whether an equal tax on real property is handed over and the tax on personal property retained to meet Imperial expenditure. So far from securing the separation of local finance from Imperial finance, the system of assigned revenues has rendered the relations between the two far more complicated than they were before. No one even knows whether the assigned taxes ought to come under the head of local taxation or of Imperial taxation: the licence duties partake of the nature of local taxation, although they are collected by the Inland Revenue officials; but the other transferred taxes cannot be separated from Imperial taxation. The consequence is that every budget has two totals, one including and the other excluding the local taxation account, to the utter confusion of the average citizen. Mr. Asquith in his recent budget speech said: "Before I part from this subject I must for myself say emphatically that I regard this procedure of the interception and earmarking of particular Imperial taxes for local purposes as in its nature fallacious and misleading. It complicates and confuses the national accounts, and urgently calls, as do all the relations between Imperial and local taxation, for prompt and thorough review." Apart from the confusion of the National and local accounts, the system as it is applied at present is open

to great objection, on the ground that the distribution of the money between the different counties and county boroughs is unfair. The greater part of the money is distributed in the proportions in which the old grants in aid were distributed, with the consequence that some rich agricultural counties get too much while counties and county boroughs whose populations have greatly increased since 1888 get far too little: London especially is said to be a loser.

The whole subject is examined at length, and in the light of wide knowledge and experience in a Report signed by Sir Edward Hamilton and Sir George Murray as members of the Royal Commission on Local Taxation. The authors are strongly in favour of reverting to the old system of direct grants in aid of particular local services. They hold that the only sound justification of Imperial grants is the recognition that certain services are national as well as local in their character, and should be paid for out of national as well as local funds.[1] Each local area must itself pay the cost of all purely local services; but there is no reason, except the convenience of local administration, why the poor should be relieved out of local rates rather than out of Imperial taxes; at any rate such reasons as there may have been in times past have lost almost all their force now that labour can migrate so easily from one part of the country to another. And if the Imperial Government can obtain guarantees of economy and efficiency and some control over, or supervision of, expenditure on the relief of the poor it might well pay a share of the cost. Education is already treated on this principle, and the principle might easily be extended not only to the relief of the poor but to the maintenance of the police and of main roads and possibly other services.

1. See also the Separate Recommendations of Lord Balfour of Burleigh.

It is said that local authorities would resent such supervision, but they do not resent it in the case of education. Local authorities have as many local duties as they can efficiently perform; and in the case of the semi-national services they might well accept administrative assistance. It has been suggested that the system of co-opting or nominating members, adopted in the case of Education Committees, might with advantage be extended, so that men and women who would gladly give their services, but who perhaps have neither the taste nor the particular gifts necessary for what is called public life, may be drawn into local administration. On this point we might perhaps learn something from France and Germany.

When this vast problem is taken in hand—and it cannot be neglected much longer—there will be an opportunity of making that additional grant in relief of rates which will render possible the rating of land values. The bulk of the additional relief will of course go to urban areas. No one will seek to deprive rural areas of the aid granted to them by the Agricultural Rates Act, though the distribution of the grant may be altered. But any further relief will naturally go to the densely-populated areas where the rates are heaviest. And these are the areas in which we wish to establish the site value rate. It has been suggested that the separate valuation and rating of land should be extended to rural areas, and such an extension would have certain advantages. But a separate rate on site values would bring in very little revenue in a rural district, and such revenue as it did produce would be largely absorbed in reducing the rates on agricultural land, mines, railways, canals, etc. In fact a separate rate on site values in a rural district would

result in rating houses more heavily for the benefit of land, which is precisely the opposite of what we are aiming at. This indeed might be the effect in some areas which are technically urban areas. On the question of area the Minority Report of the Royal Commission on Local Taxation says: "We have no doubt that the scheme should be confined to urban districts in a non-technical sense of the word, and to land which has received the large increase of value which is associated with a dense population, and the execution of the great services of urban local government. But we frankly admit that to define the suitable areas by a precise formula is not easy, for it is well known that some 'urban districts' in the technical sense are really more rural in character than some areas still known as 'rural.' It might be confined to boroughs and urban districts, with a population in excess of 10,000, though it might be well to include any urban districts with a population between 5,000 and 10,000, in which the density of population was in excess of, say, 10 per acre. . . . . The Town or Urban District Council and in London the County Council should be the authorities responsible for raising the rate and entitled to receive the proceeds."

At any rate, in considering the assistance which will be required from the Imperial Government, we may fairly take account of urban areas only. The assessable value of real property in the urban areas of England and Wales (the County of London, Boroughs, and Urban Districts) at the present date is about £150,000,000; and if we add the urban areas of Scotland and Ireland we get a total of about £170,000,000. Allowing for "compounding" and other leakages a sum of £8,000,000 a year would be sufficient to reduce the poor rate in these areas by 1s. in the pound.

We are not likely to get an additional £8,000,000 a year out of the Imperial Government. Let us then cut down the demand to £4,000,000 a year, which is less than the additional relief given by Mr. Goschen in 1888–90, and which would reduce rates in urban areas on the average by 6d. in the pound. The Chancellor of the Exchequer is not in the happy position of his predecessor twenty years ago, and even £4,000,000 is a large sum to find when there are so many calls on the Treasury. The proposal, however, is not that we should increase taxation by that amount, but merely that we should readjust taxation. The contention is that the tax on buildings and improvements has become so exceedingly heavy, particularly in poor districts, that it would be better for the community if this tax were reduced and the deficiency in the revenue made up by adding to other taxes or by creating new taxes.

It may be said that £4,000,000 is little more than a single year's increase in the rates, and that it is hardly worth while to ask for Imperial aid, if the only result is to put the clock back by one year or at most by two years. It is to be hoped, however, that the *rate in the pound* will not get back to its old point for a considerable number of years. Land-owners will have to contribute to the new Imperial taxation, but they will pay no more than any other section of the community of equal ability; they will not be singled out for special taxation. The basis of Imperial taxation is far broader than that of local taxtion, and it ought to be possible to distribute the new burden so as to fall more equitably than the old one and in a manner less calculated to check industry and enterprise.

Assuming that an additional grant of £4,000,000 a year is made, and that practically the whole of it goes to urban

areas, then rates in these areas will be reduced on the average by 6d. in the pound. The reduction, of course, will not be 6d. in every district, if a proper system of distribution is adopted. If the Government, for example, pays a proportion of the cost of the semi-national services, the reduction in some places may only be 4d., while in others, the poor densely populated areas, it may be as much as 8d., or more. The question arises whether the separate rate on land should be uniform all over the country, or should vary in different districts. If the rate were uniform the burden on property owners would be much greater in some districts than in others. For example a separate rate on land of 1s. in the pound in an area in which land value was one-third of rateable value would reduce the general rate by 4d., and if this area were to obtain from Imperial funds, an amount sufficient to reduce the rates by another 6d., there would be a total reduction of 10d. to set off against the separate rate of 1s. on land. But in a suburban area in which land value was only one-sixth of rateable value, a separate rate of 1s. in the pound on land would reduce the general rates by 2d. only; and if the amount obtained from Imperial funds were only sufficient to reduce the rates by another 4d., the total reduction would be no more than 6d. In the first case the reduction substantially balances the separate rate; in the second case it does not.

On the other hand it would be very convenient to have a uniform rate. A site value rate must be a fixed rate: at least it must be fixed for a long time, for some difficult and confusing complications would be created by altering it after a system of deductions from rent had been once started. And it would add considerably to the difficulty of amalgamating two areas hereafter if their site value rates were different and could not be made uniform.

Without being too mathematical we may venture to say that no material injury would be done to landowners if a uniform rate of 1s. in the pound were imposed all over the country, even though in some districts the reduction in the general rates might not be more than 6d. The reduction would be least in wealthy areas with low site values where the burden would be small and could easily be borne.

The scheme indicated would provide some seven millions sterling for the relief of local rates, of which four millions would come from Imperial taxation and about three millions from the separate rate on land. It would reduce the existing rates in every urban area in the United Kingdom by something between 6d. and 1s. in the pound, and it would reduce the rates in most large towns by between 9d. and 1s.

While these sheets were passing through the Press the Report of the Select Committee appointed to consider the Land Values Taxation, etc. (Scotland) Bill of 1906 was issued and circulated. The Report concludes as follows :—"Your Committee will now proceed to summarise the conclusions at which they have arrived. They consider that the new standard of rating based on the yearly value of land apart from the buildings and improvements upon it is sound, and would prove advantageous, that to set it up, by estimating the value of land apart from buildings, is practicable; that in making the valuation regard must be had to all restrictions validly imposed on the land, and to recent expenditure in preparing it for use; that exemptions such as are proposed in clause 6 of the Bill [schools, churches, parks, etc.] are proper, but that to these exceptions ought to be added railways, docks, piers, and harbours; that in so far as both occupiers and owners are concerned the new standard of rating should be substituted for the present standard, and that within the category of owners ought to be included owners of feu duties whensoever created. Your Committee therefore agree to the following recommendations :—(1) That the Bill referred to the Committee be not further proceeded with. (2) That a measure be introduced making provision for a valuation of land in the burghs and counties of Scotland apart from the buildings and improvements upon it, and that no assessment be determined upon until the amount of that valuation is known and considered." These conclusions are very far reaching. The point of immediate interest is the conclusion of the Committee that the

site value rate (or some part of it) must be paid by owners of feu duties *already created*. This is the more remarkable as the Lord Advocate stated when the Bill received a second reading that existing contracts would be untouched. The Committee in fact found itself confronted by the inevitable dilemma. If an additional rate is placed on land it is necessary either to rate all owners of existing feu duties or to exempt them all. Either course is very difficult for the reasons stated on pages 84—87 above (feu duties and chief rents being almost identical). The fact that the Committee have chosen the first alternative in spite of the great and obvious objections to it supports (it is submitted) the view that the only fair solution is to leave existing contracts untouched, and to compensate those owners, feuars and lessees who pay the site value rate, by reducing the existing rates. If a rate of 2s. in the pound is imposed on existing chief rents and feu duties, an income derived from them will in effect pay additional income tax of that amount. If in addition to this "unearned" incomes are taxed at a higher rate than "earned" incomes, the possessor of an income drawn from chief rents or feu duties will be in a most unfortunate position. The Committee say that owners of feu duties are owners of land and benefit by expenditure out of the rates. The same is true of mortgagees and debenture holders: are *they* to pay the site value rate?

FUTURE INCREASE OF LAND VALUES

CHAPTER VI.

Future Increase of Land Values.

The scheme outlined in the preceding chapter, admittedly, is not a complete scheme for rating land values: it does not to any substantial extent, transfer a burden from buildings to land, or secure for the public a greater part of the unearned increment, but merely relieves the burden on buildings by adding to Imperial taxation. I come now, however, to a proposal which is not open to this criticism. About the year 1870 John Stuart Mill, in a series of papers and addresses explanatory of the programme of the Land Tenure Reform Association, advanced his celebrated scheme for taking all *future* unearned increase in the value of land. Article IV. of the programme runs as follows: "To claim for the benefit of the State the interception by taxation of the future unearned increase of the rent of land (so far as the same can be ascertained), or a great part of that increase, which is continually taking place, without any effort or outlay by the proprietors, merely through the growth of population and wealth; reserving to owners the option of relinquishing their property to the State at the market value which it may have acquired at the time when this principle may be adopted by the legislature."[1]

Explaining and justifying this article, Mill says: "The Land Tenure Reform Association claim this increase for those who are its real authors. They do not propose to deprive the landlords of their present rents, nor of anything which they may hereafter add to those rents by their own improvements. The future unearned increment is what

1. J. S. Mill, *Papers on Land Tenure, Dissertations and Discussions*, vol. iv., p. 293.

the Association seeks to withdraw from them and retain for those to whose labour and sacrifices from generation to generation it has been really due. The means by which it is proposed to accomplish this is special taxation. Over and above the fair share of the landlords in the general taxation of the public they may justly be required to pay hereafter a special tax within the limits of the increase which may accrue to their present income from causes independent of themselves.

"Against this proposal it is objected that many landowners have bought the lands they hold, and in buying them had in view not only their present rental but the probability of future increase, of which increase therefore it would be unjust to deprive them. But the Association do not propose to deprive them of it without compensation. In the plan of the Association the landlords would have the right reserved to them of parting with their land to the State immediately, or at any future time, at the price for which they could sell it at the time when the plan is adopted. By availing themselves of this option, they would not only get back whatever they had paid for the prospect of future increase, but would obtain the full price for which they could have sold that future prospect at the time when the new system was introduced. They would be left in a pecuniary sense exactly as well off as they were before. . . . There is another objection commonly made which is disposed of by the same answer. It is often said that land, and particularly land in towns, is liable to lose value as well as gain it. . . . These cases, however, are the exception not the rule; and when they occur what is lost in one quarter is gained in another, and there is the general gain due to the prosperity of the country besides. If some landlords for exceptional reasons do not partake in the benefit, neither will they have to pay the tax. They

will be exactly where they are now. If it be said that as they took the chance of a diminution they ought to have the counter-balancing chance of an increase, the answer is that the power of giving up the land at its existing price, in which both chances are allowed for, makes the matter even. Indeed, more than even. No one would benefit so much by the proposed measure as those whose land might afterwards fall in value. . . ."[1]

It will be seen that Mill proposed to take *the whole* of the future increase of the rent of land, or at any rate "a great part" of it, and that he felt bound to safeguard owners of land against possible injustice by giving them the right at any time to call on the State to buy their land at the value at which it was assessed at the time when the scheme was first adopted. The scheme was intended to apply to all land, agricultural as well as urban, for at that time it was confidently expected that in a prosperous country the value of agricultural land would increase in the future as it had done in the past. This expectation has not been realised; by a curious coincidence the value of agricultural land began to decline immediately after Mill had written these papers, and to-day its value, apart from improvements, is very much less than it was at that date. Consequently so far as agricultural land is concerned, the State would have made a bad bargain—at any rate from a purely financial point of view—if it had bound itself to buy at the prices of 1870. It is conceivable, however unlikely it may appear now, that our expectation that urban land will continue to rise in value may be disappointed, and we shall be well advised not to impose on the State or the municipalities any obligation to purchase

1. J. S. Mill, *Papers on Land Tenure, Dissertations and Discussions*, vol. iv., p. 293.

at present prices. There are many other objections to taking the whole of the future unearned increment; it might, for instance, be very bad business to do so, for it is the public interest to attract capital to land and not to frighten it away, and capital is attracted by the prospect of turning to account increase in the value of land.

We should not be prepared at this date, with thirty-five additional years of experience behind us, to adopt Mill's scheme in its entirety. But the suggestion is a most valuable one, and it has been revived in recent years as offering a better chance of success than any other method of rating land values.[1] Subject to the qualification which Mill allows—that a recent purchaser in giving a price for land may have taken into account estimated or probable increase of value—there can be no vested interest in future unearned increment; it is not private property at all, and the right of the public to claim a share of it by taxation cannot be denied.

A word, however, should be said about the incidence of a tax on future increase of value. If the whole of the increase is taken the question of incidence hardly arises, for (in the absence of improvements) a landlord would have no object in raising rents, since anything he gained would be taken from him; indeed it is difficult to see how rents could be fixed at all unless the State as a joint owner had some say in the matter.[2] But if only

1. See Prof. F. Y. Edgeworth, *Economic Journal*, vol. x., pp. 511—517, December 1900; see also Mr. R. McKenna, M.P., Royal Commission on Local Taxation Minutes of Evidence, vol. iv., app. xix.; see also the scheme proposed by Mr. Henry, the City Assessor of Glasgow. Royal Commission on Local Taxation. Minutes of Evidence, vol. iii., app. xxv.

2. Mill did not work out the details of his scheme, and it is not quite clear that he intended to tax land values in the hands of lessees or other intermediate owners. He seems, however, to have contemplated a separate valuation of land and improvements every ten or twenty years, and a heavy tax on the whole increase of the value of the land. *Dissertations and Discussions*, vol. iv., p. 286.

part of the increase is taken (say by a rate of five shillings in the pound) the question of incidence is all important. The reasoning which shows that a tax on land falls on the owner assumes that the tax is proportional to the value of the land, so that the most valuable land bears the heaviest burden. This is true of existing rates and taxes, but it would not be universally true of a tax on future increase of value. As regards land covered with buildings it is a general rule that the most valuable land increases most in value; value tends to be continuously piled up on the central sites of a town. But uncovered land ripening for building increases in value much faster than suburban land already covered. Hence if a tax is put on all future increase of value the burden on cheap land coming into building will be heavier than the burden on a great deal of more expensive land already built on. At first sight there would seem to be some danger of the tax falling on the occupiers of the new building land because of the difficulty of finding other land as cheap and less heavily taxed. The rent of building land, however, is the measure of the advantage of occupying that land rather than land which has not risen above a mere agricultural value. It is the presence in the background of an unlimited supply of very cheap and very lightly taxed land which determines the value of building land, and the rent of a building site cannot be raised unless there is some increase in the advantage of occupying the site. A rate on future increase of value, if levied on occupiers, will subtract from the increasing advantage of occupying a site, and therefore will subtract from the increasing rent demanded for it: if levied on owners it will not affect rents.

Had a five shilling rate on increase in the value of land been applied to London at the beginning of last century the general rates at the present time would

have been less by some thirty per cent. Had it been applied only at the date when Mill was writing the relief by this time would have been considerable. Mr. Gomme, the statistical officer of the London County Council, has estimated that the rateable value of property in London *built before* 1870–71 was in that year £19,650,743, and in 1897–98 had increased to £25,131,840, in round figures an increase of five and a half millions in twenty-five years.[1] This is pure, unearned increment, and if liable to a rate of five shillings in the pound would have yielded at the latter date an income of nearly £1,400,000.[2]

These figures of course do not represent the whole increase in the site value of London during these years, for no account is taken of sites on which building or rebuilding has taken place since 1871; and they do not represent the true increase in value even of the sites to which they relate, but rather the true increase less depreciation in building value, and less the amount by which those sites are depreciated by unsuitable buildings. The true increase of the value of a site is the increase in the amount for which the *cleared site* could be sold or let. In order to measure this it will be necessary to value land separately from buildings, and then to revalue it at stated intervals. If the rate is applied only to covered land, there is no objection to putting the rate on the increase so measured, but if it is applied to uncovered land, we shall have to deduct the increase of value due to capital expenditure on the making of roads and other improvements. It may be said that in some cases building or rebuilding increases the value of

1. Royal Commission on Local Taxation, Minutes of Evidence, vol. i., app. xxvii.

2. This assumes that the rate is assessed on increase of gross annual value. Increase of net annual value would shrink under the rate (would be diminished by the amount of the rate). See note on p. 74 above.

land just as much as the making of roads increases it, and it must be allowed that there is some truth in the contention. If a capitalist were to select several of the back streets in Westminster, and were to pull down the old buildings and erect first-class houses or flats, the value of the land would rise. But this is rarely done. In practice a number of owners or investors gradually change the character of a district, and each of them benefits not only by his own enterprise, but also by the enterprise of all the others. It is impossible in practice, and it seems to me difficult in theory, to distinguish the increase of value thus created from unearned increment.

In making the valuation or assessment, regard must be had to restrictions on the use of land due to covenants and easements; but as I have already dealt with these restrictions, and as the same considerations apply to assessment of future increase of value as to assessment of present value, it is unnecessary to go into these questions again.

There are, however, two objections always urged against a special rate on future increase of value, and these require an answer. In the first place, it is objected that the price given for land is based not only on its present rental value, but also upon an expectation of future increase of rental value, and that it would be unfair to recent purchasers if we were to cut down this increase by a special rate. If the scheme were applied to all land in urban areas, whether ripe for building or not, the objection would be material. For example, a man may just have given £10,000 for some uncovered land in the suburbs, expecting that in twelve or fifteen years it will be ripe for building, and that he will then be able to sell the land for £20,000, or to

obtain a ground rent of £800. This is a purely business transaction, the profit made will not be very great, not much more than the profit which could have been made by investing the money in railway or corporation stock and allowing it to increase at compound interest. But if a rate of five shillings in the pound is imposed on four per cent. of increase of capital value, the capital value of the land at the end of the period will be reduced by £2,500, and the net rental value will be reduced by £100; the calculations of the purchaser will be entirely upset and he will lose money.

If, however, the rate is confined to covered land (and at present I propose to deal with covered land only), the objection loses almost all its force. No one buying a site which is built on, or may immediately be built on, gives a price based on a prospect of a large increase of value in ten or twenty years, because such an increase cannot be anticipated with any certainty, or at all. When land has once come into building no one can say whether its value will be greater or less in ten years' time. The course of land values is generally upwards, but it is not a smooth one; there are many ups and downs; purchasers may guess and speculate, but it cannot fairly be said that the price given includes a certain prospect of future increase. The price given is based on the rent which can be obtained for the cleared site at the time of purchase. The matter, however, is of no real importance, for the difficulty, if it exists, could easily be met by giving a few years of grace—that is, by providing that increase of value subject to the rate shall commence to run some years after the date of the Act. But if the scheme is applied only to covered land and to land ripe for building the indulgence seems unnecessary.

In the second place, it is objected that land does not

always increase in value, but sometimes decreases in value, that there is an "unearned decrement" as well as an "unearned increment," and that as owners are left to bear their losses they ought to be allowed to keep their gains. The answer is that if land were to fall below its present-day value it would not only pay no special rate but it would benefit by the reduction in the general rates which the special rate will render possible. Owners of land which decreases in value in the future will lose nothing by the rate, but will be in a better position than they were before. It is one of the strong points of the scheme that the fortunate owners whose land is increasing in value will be rated for the benefit of the public at large, and particularly for the benefit of the unfortunate owners whose land is decreasing in value. When a rate is imposed on the whole of a town for the purpose of making a great permanent improvement in one locality the majority of owners suffer while some few owners benefit very greatly. The new rate will do something to restore the balance; it will take from those who have gained and give to those who have lost.

There is, however, one case of apparent hardship which might arise. If land had been decreasing in value for some time previously to the imposition of the rate, and afterwards began to rise in value, the owner might argue that before he was taxed he ought to be allowed to make good his loss. If it were proposed to take the whole of the increase of value this argument would be a strong one, and it is to be noted that Mills' safeguard giving the owner the right to call upon the State to purchase the land at its market value at the time when the scheme first came into operation, would be of no benefit to him in this case; for that price, perhaps, would be the lowest price which the land touched. But in the case of a rate of only five shillings in the pound, the objection is

not nearly so great. If land suddenly and unexpectedly begins to increase in value, can it be said that an owner is treated badly if he is allowed to keep three-quarters of the increase? If the increase is small the rate will be small, while if the increase is large the owner will soon get back what he lost. The objection seems theoretical rather than practical.

Clearly, the initial valuation from which we are to measure increase of value would have to be made with very great care, for a mistake would be somewhat difficult to rectify. It is worth noting that a combination of a rate on present site value with a rate on future increase of site value, would place an owner who objected to the initial valuation of his land in a dilemma, for as regards the first rate it would suit him to have the valuation made as low as possible, while as regards the second rate it would pay him to have it made as high as possible. After the initial valuation had been made, re-valuation at fixed intervals would be necessary, and perhaps the best interval would be five years, which is that adopted in London at the present time. No rate could be levied during the first five years, but in the sixth year the increase would be measured, and the rate levied, and that rate would be constant for the five years following, and so on. For example, the annual site value of London is increasing at the rate of £300,000 or £350,000 a year. At the end of five years the increase will be say £1,600,000. The produce of a five-shilling rate would then be £400,000, and so it would continue until the next valuation was made, when we may expect that it would be something like doubled. Assuming that land values in London increase in the future as they have done in the past, then (making every allowance for a diminished increase due to the rate) a rate of five shillings in the pound, assessed on the increase in the annual value of land,

should produce nearly three-quarters of a million at the end of ten years. If a rate of five shillings in the pound on future increase of value were added to the scheme outlined in the last chapter, the general rates of London at the end of ten years from the initial valuation would be relieved to the extent of some £2,500,000 per annum.[1]

As regards the collection of the rate, it will be convenient to adopt the familiar rules of deduction. That is to say, the rate will be paid in the first instance by the people who pay the existing rates; but an occupier or lessee will be entitled to deduct from his rent the rate paid on the increase of value as assessed at the time when his rent was fixed. Thus every occupier will pay the rate on the increase accruing during his term (of which he gets the benefit) and will deduct the rate on the remainder. Existing contracts will not come into question at all.

This method of rating land values is fair and honest, and merely reserves for the public a portion of a public value. The unearned increment which has accrued in the past is now in the hands of "bona-fide purchasers for value without notice" whose title cannot be challenged. This we cannot recover; but we can take care that the next generation is not faced with the same difficulty.

1. The site value of London at the present time is about £18,000,000. In ten years time it will be (say) £21,000,000. A rate of 1s. in the pound on the whole site value will at the latter date produce £1,050,000, and a rate of 5s. in the pound on the increase will produce £750,000. Adding £700,000 as London's share of the additional grant from the Treasury we get a total of £2,500,000 for relief of Rates. The amount raised by means of rates in London in the present year will be about £15,000,000.

THE MUNICIPAL BILL

CHAPTER VII.

The Municipal Bill.

A scheme which has commended itself to over five hundred rating authorities is entitled to very respectful consideration, and I propose here to consider the Municipal Bill [1] very shortly in its application to covered land, leaving uncovered land for the next chapter. The text of the Bill (of 1905) will be found in the appendix. The first clause provides for the separate valuation of land and defines the annual value of land as three per cent. of the amount for which the land could be sold as by a willing selling to a willing buyer (allowance being made for restrictive covenants, leases, etc.). As regards land covered with buildings the intention (as I understand it) is first to assess a whole property by reference to its rental value just as is done at present, then to separately value the land as above, and finally to take the difference between these two figures as the value of the building. In cases in which the land value, estimated at three per cent. of selling value, exceeds the present rateable value of the whole property, the land value is to be accounted the rateable value. The second clause provides that rates shall be paid on the land value of unoccupied property. And then comes Clause 3: "Where an occupier of a hereditament holds it under a lease or agreement made after the passing of the Act, he shall notwithstanding any agreement to the contrary be entitled to deduct from rent payable by him so much of any rate paid by him in respect of the hereditament as is payable on the land value as assessed at the time of the making of the lease or agreement." This is the familiar rule of deductions saving existing contracts, except that in terms it allows only

1. See Introduction, pp. 2 and 3.

occupiers to deduct the rate. It must be intended, however, to allow intermediate lessees to deduct the rate in their turn from the rents they pay to superior owners. Otherwise a lessee would have the right to deduct the rate only so long as he was an occupier; but if he sublet he would lose the right to deduct, although his tenant would have the right to deduct the rate against him.

The Bill then in effect divides the rateable value of a property into two parts, land value and building value, and allows an occupier (or lessee) to deduct from his rent the rates which he pays on the land value. At first sight it would seem that there is no transference of burden from buildings to land, and that the only change made is permission to the occupier to deduct part of his rates from rent. Now merely to allow an occupier to deduct rates from rent does him very little good. It is impossible to change the incidence of rates unless there is a transference of burden from buildings to land. If the burden on land remains the same as before, the value of the land remains the same, and the rent will remain the same; that is to say what is deducted from rent will be added on again.

I am not sure, however, that the scheme is so simple or so mild as it appears. The greater the proportion of land value contained in a property the greater will be the percentage of rates deducted, and therefore the greater will be the percentage by which the rent will be increased. Consequently, the rent of a property of high site value will be raised as compared with the rent of a property of low site value. Hence if *rateable value is to be based on the new rents* there will be a redistribution of burden as between different properties to the disadvantage of property of high site value. For example, take two houses each rented and rated at £300, and therefore both con-

tributing equally to the rates; we may neglect the allowance for repairs as it only adds an unnecessary complication. Suppose that this scheme comes into operation, and that the first house is divided into £200 land value and £100 building value, and that in the case of the second house these values are reversed. Then if the rates are 6s. 8d. in the pound, the occupier of the first house will deduct £66 from his rent, and consequently (if the landlord can succeed in getting the same income from the property as before) his rent will be raised to £366; while the occupier of the second house will deduct £33, and his rent will be raised to £333. It is evident that if rateable value is to be based on the new rents, these houses will not contribute equally in the future. The scheme in effect raises the assessment of land by one-third while keeping the assessment of buildings the same as before, and therefore transfers part of the rates from buildings to land. If the scheme is worked out for an average district it will be found to be equivalent to an additional rate of two shillings on land. The matter is further complicated by the fact that the increased assessment of land will be regarded as building value,[1] and the rates paid in respect of it will be supposed to be paid by the occupier. If an additional rate is to be placed on land surely a more direct method is to be preferred.

It may not be intended, however, that rateable value shall be based on the new rents. If rateable value were defined as at present as the net annual value of a property, that is, gross rental value less deductions for repairs, *less the rates paid by the owner*, then assessment of land would not be raised, and no change, or very little change, would be made in the final incidence of rates. It is not

1. The assessment of "land value" being based on selling value will not be affected by a rise in rent neutralising a previous deduction from rent.

true to say that occupiers and lessees would obtain no benefit at all; for in some cases lessees would benefit greatly and ultimate owners would suffer very severely. If I understand the Bill rightly, when the rate in the pound increases after a lease or agreement has been made the amount deducted from rent will be the increased rate in the pound calculated on the land value as assessed at the date of the lease or agreement. In the case of a London ground rent or a Manchester chief rent this might be a very serious thing for the owner of the rent. For instance, if a ground rent of £100 per annum were created after the date of the Act and the rates at the time when the rent was fixed were 5s. in the pound, the amount at first deducted from the ground rent would be £25; but if in process of time the rates went up to 9s. in the pound the amount deducted would be £45. Such a variation would altogether destroy the value of ground rents as a form of investment. If a rate is deducted from a rent to which no reversion or a distant reversion is attached, it should be a fixed and not a variable rate; the amount deducted should be the rate as it stood at the commencement of the lease calculated on the land value as it stood at the commencement of the lease.

There are certain properties the assessment of which will be raised in any case, namely, those in which three per cent. of the selling value of the land exceeds the rental value of the whole property. Almost all uncovered land comes within this category, but as regards covered land such cases are rare, and exist only when a very poor building stands on valuable land or when a great quantity of land is attached to a building. The revenue derived from this increase of assessment would be very small, not worth considering, but the intention of course is to compel owners of this class of property to re-build and make full

use of their land. In the case of slum property this might be an excellent thing, though it is questionable whether much slum property is of a rental or rateable value less than three per cent. of the selling value of the land on which it stands. One kind of property, however, would be very hardly hit by this method of rating, *i.e.*, houses in the suburbs standing in large gardens; for the site value of a large garden must often exceed the rental value of the house to which it is attached. Yet many people will agree that this class of property should be treated with special consideration; for large gardens are disappearing very rapidly, and in most cases their disappearance is not a gain but a great loss to a neighbourhood. Such places as the Crystal Palace, Earl's Court Exhibition, the Zoological Gardens, the Oval, etc., would suffer very severely indeed; but here we are touching the question of uncovered land.

A very important clause of the Bill seeks to make use of the separate valuation of land for the purpose of reforming our system of estimating the cost of repairs. In order to arrive at rateable value there is deducted from gross rental value a sum which is supposed to represent the annual cost of keeping the property in repair. The amount of deduction allowed varies in different parts of the country, but in London the practice is governed by s. 52 of the Valuation (Metropolis) Act, 1869, which provides that the rate of deduction *shall not exceed* certain percentages or fractions stated in a schedule to the Act. The maximum rate allowed varies from one-third of gross rental value in the case of factories and mills to one-sixth in the case of houses of £40 rental and above; for small houses the maximum rate is one-fourth. In practice the maximum rate of deduction is always allowed and no attempt is made to estimate the actual cost of repairs. It is argued that since it is the building and not

the land which requires repair, the sum deducted ought to be a fraction of the building value only, and the Bill provides that in future this shall be so, and that the fractions allowed in s. 52 of the above-mentioned Act shall be fractions, not of the gross rental value of a property, but of the building value only. The argument at first is convincing, but consideration shows that the new system would sometimes work very hardly. Building value is to be estimated (and can only be estimated) by subtracting the site value of a property from its total rental value. Now there will be a considerable number of cases in which site value will fall not far short of, if it does not exceed, rental value, and in such cases the value of a building would be reckoned as little or nothing, and little or no allowance would be made for repairs. Yet it is precisely in such cases that the cost of repairs is likely to be heavy, for the buildings generally would be old buildings. Take the case of an old factory costing large sums to keep in repair and standing on a valuable site. Under the present system thirty-three per cent. of gross rental value is allowed for repairs; under the suggested system a much smaller sum would be allowed. Or take again the house with a large garden; here perhaps no allowance at all would be made. For example, take a house rented at £240 and rated at £200, and assume that the capital value of the land attached to it is £10,000. The rateable value of this house would in future be £300, and the rates paid in respect of it would be increased by fifty per cent.

This amendment of the law is in fact another way, and it seems to me an unfair way, of imposing an additional rate on land. So far as London is concerned, it would increase the assessment of land occupied by the better class of buildings by one-sixth, it would increase the

assessment of land occupied by the poorer class of buildings by one-fourth, and it would increase the assessment of land occupied by factories by one-third. A rate of 6s. in the pound on these increases is equal to additional rates of one shilling, eighteen pence, and two shillings respectively on the whole value of the land. This is to discriminate between sites and to lay the heaviest rate on the property which is least able to bear it. The unfairness of the present system arises from the fact that the maximum rate of deduction is allowed in every case. Why is it impossible to make a rough estimate of the probable cost of repairs?

I am bound to say that the scheme of the Municipal Bill so far as it relates to covered land seems to me an unsatisfactory one. A great deal depends on the answer to the question whether rateable value is to be defined as net annual value after deducting rates paid by the owner, or as gross annual value without deducting rates paid by the owner. But apart altogether from the question of real incidence the scheme is open to objection on the ground that it would *appear* to give most relief to the people who need it least. If there were any benefit to be obtained from deduction of rates from rent it would appear most unfair that a wealthy man renting a house in the West End should be allowed to deduct one-half or two-thirds of his rates, while the humble occupier of a £40 house in the suburbs was allowed to deduct only one-sixth or one-seventh of his rates. It would be better simply to divide rates half and half between owners and occupiers.

BUILDING LAND

CHAPTER VIII.

Building Land.

Land, in common with the rest of rateable property, is assessable to the rates at the rent at which it might reasonably be expected to let, and this has been interpreted to mean the rent at which it could be let in its existing condition, *rebus sic stantibus*. That is to say, if land is used for agriculture it is assessed at an agricultural rent; if it is used as a cricket field it is assessed at the rent which a cricket club would pay for it. If land is unoccupied—as in the case of building sites in the centre of a town and pieces of waste land on the outskirts—there is no power to rate it at all since no one is rateable in respect of it.

But a great deal of the land in the neighbourhood of a town which is used for agricultural purposes or for purposes of recreation, or is not used at all, could be sold at prices which bear no relation to the rents actually obtained (or obtainable *rebus sic stantibus*) because the land possesses a present or prospective building value. It is said that this land ought to be assessed not at its present rental value but at its building value, or, as it is expressed, at its real value. The reasons alleged are (1) that the owners of the land, although benefitting very greatly by unearned increment, do not bear their fair share of local burdens; and (2) that the present method of assessment enables an owner to hold up his land with a view to raising its price long after the land is wanted for building.

The Municipal Bill boldly provides that the annual value of *all* land in urban areas (the County of London, Boroughs and Urban Districts in England and Wales)

" shall be deemed to be an amount equal to three per cent. of the amount for which the land could be sold as by a willing seller to a willing buyer "—that is, shall be three per cent. of its capital value. At first sight it would seem that annual value as thus defined is to be the rateable value of land in all cases and for all rates, but a closer examination of the Bill raises some doubt on this point. Clause 7 in the widest possible terms preserves all existing exceptions from the general law.[1] As regards uncovered land the principal exceptions are those created by the Public Health Act, 1875, and by the Agricultural Rates Act, 1896. The Public Health Act (ss. 211 and 230) provides that the occupier in any urban sanitary district of any land used as agricultural land or as a railway or canal shall be assessed to the general district rate in the proportion of one-fourth part of its net annual value. The Agricultural Rates Act, 1896, provides that during the continuance of the Act the occupier of agricultural land [2] in England and Wales shall be liable in the case of the poor rate and some other rates to pay one-half only of the rate in the pound payable on buildings and other hereditaments.

Apparently it is intended that these indulgences shall be continued in the future. On the other hand, in the debates and discussions on the Bill it has been assumed by almost everyone that the rateable value of land is to be three per cent. of its selling value in all cases and for all rates, and the calculations of the effect of the scheme on

1. See the text of the Bill in the Appendix.

2. "The Expression 'Agricultural land' means any land used as arable, meadow, or pasture ground only, cottage gardens exceeding one-quarter of an acre, market gardens, nursery grounds, orchards or allotments, but does not include land occupied together with a house as a park or gardens other than aforesaid, pleasure grounds or any land kept or preserved mainly or exclusively for purposes of sport or recreation, or land used as a racecourse." Agricultural Rates Act, 1896, s. 9. The definition in the Public Health Act, 1875, is very similar.

the rates of Finchley, Hornsey and Fulham, to which reference will be made presently, are based on this assumption. Certainly it seems quite inconsistent with the spirit and intention of the Bill that a valuable site should pay rates on one-half or one-quarter of its value simply because it comes within the technical definition of agricultural land. If the scheme of the Municipal Bill is adopted this question will have to be considered very carefully; but I am not concerned to pursue the matter further for reasons which will appear.

According to the last Census Returns, the area of the County of London and of boroughs and urban districts in England and Wales in the year 1901 was 3,848,987 acres, and as every year some rural districts are converted into urban districts, the urban area is increasing continually and rapidly. It would be interesting to know how much of this land is covered with buildings, and it is not difficult to make a rough estimate. Taking the whole of the County of London, the number of houses per acre in the year 1901 works out at 8·2, although there is still a large quantity of uncovered land within the county. The corresponding figure for the borough of Stepney is 18·7; for Bethnal Green 19·3; for Kensington, which contains a large area of public parks, 10·5; for Liverpool 10·2; for Manchester 9·1. Making every allowance for the greater extension of building in the suburbs, it seems likely that if we divide the total number of houses in urban areas by eight or ten we shall get approximately the number of acres covered by houses, streets, gardens, public parks, railways and so forth. The total number of houses in urban areas in the year 1901 was 4,960,498, so that the area covered should be something like half a million acres, leaving more than three million acres of uncovered land.[1]

1. The fact that the rateable value of Agricultural land in Urban areas in the year 1904 was £3,216,287, is some confirmation of this estimate.

An enormous amount of building took place in the decade 1891–1901. The total increase in the number of houses in England and Wales during that period is given in the Census returns as 909,625, and probably some 800,000 of these were built in areas which are now urban areas. But even so, the area of land built on in the ten years cannot have been much more than 100,000 acres. At this rate—and it seems almost impossible that this rate can be kept up—centuries must elapse before the whole of the land in existing urban areas is built on.

Yet there can be little doubt that a very large area of this land has a capital value considerably greater than it would have if there were no chance of the land being used for other than agricultural purposes. Land acquires a prospective building value, that is a selling value much greater than an agricultural value, many years before anyone would dream of building on it. The selling value of uncovered land is the present value of the revenue which it is anticipated will be derived from the land in the future. And more than this ; the value of uncovered land is a speculative value—the sort of value which a lottery ticket possesses before the prizes are drawn. In a lottery only some numbers can win and the majority of the tickets are waste paper, but every ticket has a value. In the same way a new suburb may spring up anywhere, any land may be chosen land, and therefore all urban land has some sort of a building value, though only a small portion of it can be built on within a measureable distance of time.

If land with a prospective building value remains unbuilt on for only a single generation, the tax contemplated in the Municipal Bill would be terribly severe. There must be hundreds of thousands of acres in urban areas worth two, or three hundred pounds an acre, which will

not be built on for twenty or thirty years. The Bill would wipe out rent over this large area, and in addition would put a crushing tax on agriculture. Mr. Grant Lawson, in the debate on the Bill of 1905, quoted his own case. "How would it fall on the farmer? He spoke as a farmer himself; he had a farm in one of the Urban Districts of which the rent was £1 an acre, and the rates after making all deductions 3s. That land was estimated to be worth £300 an acre capital value. Under this Bill it would be rated at an imaginary income of £9 an acre, with the result that the rates alone would be 27s. an acre, so that the landlord himself would not only lose all the rent he got out of the land, but the farmer would pay 4s, more per acre for the privilege of farming the land in that district." [1]

If we examine the figures for a district which has been selected as affording a favourable example of the working of the scheme the results are even more startling. In the course of the debate on the second reading of the Municipal Bill of 1904 Mr. Asquith (relying, I believe, on an experimental valuation made for the English League for the Taxation of Land Values) gave some very interesting figures relating to Finchley, an urban district to the north of London and outside the County. "In the London suburb of Finchley an honest attempt had been made, with the aid of skilled valuers, to see how the scheme would work out there. The population of Finchley was 30,000. The present valuation was £160,000, of which £20,000 was estimated as the share attributable to land separated from buildings and improvements. A careful estimate had been made of the capital or selling value of the land alone. After deductions for the shrinkage which would undoubtedly take place in the value of the

1. Hansard, vol. cxlv., p. 261; 14 April, 1905.

land consequent upon its being brought into rating, and after allowance for all other relevant considerations, the conclusion arrived at was that the capital or selling value of the land would amount to £1,874,000. Three per cent. on that—the figure named in the Bill—would mean £56,000 a year as the actual rateable value of the land. As land at present paid £20,000, this would be an addition of £36,000 to the annual rateable value of the district. The result translated into terms of rates would be this—that whereas the rate at present paid was 8s. 2d. in the pound it would be reduced to 6s. 3d."[1]

The following year Mr. Asquith had some more figures to give, but they were not of such a striking character. In the case of Hornsey (a newly created municipal borough just beyond the northern boundary of London, with a population of more than 70,000), it was calculated that the capital value of the uncovered land brought in would be £887,000, which, at three per cent., would amount to £26,610 of rateable value. The result would be a reduction in rates from 7s. 6d. to 7s. 2d. A similar calculation in regard to the London borough of Fulham showed that in that case there would be a reduction in the rates from 7s. 4d. to 7s. 2d.[2]

Returning to Finchley, which is the most interesting example, the increase of £36,000 in the rateable value of land consequent upon taking 3 per cent. of capital value instead of letting value as the basis of assessment must be derived almost wholly from the uncovered land in the district. Now as the total area of the district is 3,384 acres, and as the population is only 30,000, the area of uncovered land will be not far from 2,500 acres. Three

1. Hansard, vol. cxxxi., p. 896, 11 March, 1904.
2. Hansard, vol. cxlv., p. 246; 14 April, 1905.

per cent. of the capital value of an average acre of this land would seem therefore to be about £15, and if the rate in the pound is 6s. 3d. the total amount paid per acre will be nearly £5. Even the cheapest land in Finchley can hardly be worth less than £200 an acre; three per cent. of this is £6, so that the rate per acre will be 37s. 6d. A sudden rush of population may flood a district near London in a very short time: witness the astounding figures for Willesden: population in 1881, 27,613; in 1891, 61,265; in 1901, 114,821. But this rate of expansion is happily confined to a few places. To cover the whole of the land in Finchley would require a population of something like 150,000, and (in spite of the electric trams) it is reasonable to suppose that the greater part of the land will remain uncovered at any rate for twenty years, and that some land will remain uncovered perhaps for fifty years and perhaps for ever. It seems quite impossible that we should put a burden of £5 an acre, or even of £2 an acre, on land which will remain agricultural land for twenty or fifty years.

And how are we to value land which is not ripe for building? The firm who made the valuation of Finchley say that their valuation was arrived at "frontage by frontage, plot by plot, field by field," at such prices as would be fixed between a willing buyer and a willing seller, with every possible allowance for contingencies. But if a man owns an estate of a hundred acres which is not likely to be built on for some years, he would sell the whole of it at a price which would work out per acre or per plot at much less than the price he would ask for a single acre or a single plot. Surely it is the wholesale price and not the retail price which should be taken as the basis of valuation.

The fact is that the proposal to tax *all* land in urban areas by reference to its capital value is not part of, and is not consistent with, a scheme of rating site values, but

belongs to a system of taxing capital values, such as exists in the United States of America and in some towns in Germany. Site value may be defined as the revenue which a cleared site is capable of yielding if put to its full use. As regards covered land or land which is ripe for immediate building, capital value is a fair measure of this site value. But when we come to land which is not ripe for building the case is very different. Land which in twenty years' time will be ripe for building and will then sell for £1,000 an acre, may sell at the present time at perhaps £400 an acre. But to take three per cent. of present capital value and to say that £12 an acre is the present annual value of the land is nonsense. The land is not in fact bringing in £12 an acre and cannot produce such a revenue or anything like it. The highest revenue the land can produce for years to come is perhaps 30s. an acre.[1]

Most of those who have considered the matter are agreed that it is impossible in this country to place the whole of the rates on the capital value of uncovered land, and, further, that it is impossible to place any rate on the capital value of land which, while possessing a certain prospective building value, cannot be built on for many years. The only practical alternative is a comparatively light rate additional to the existing rates and confined to land which is ripe for building. This is the conclusion of the Minority Report of the Royal Commission on Local Taxation, which recommends that "a special rate limited in amount" shall be imposed on the site value of all

1. Compare Mr. G. S. Mathews, land agent and surveyor of Birmingham: "Building value is of very gradual growth, and land at the Urban limit may have a prospective building value, *i.e.*, a purchase value much greater than its agricultural value many years before it is ripe for building, and has an actual building value. No efforts of the owner would induce a builder to spend his capital upon it before this time." Royal Commission on Local Taxation. Minutes of Evidence, vol. iv., app. vi. See also Mr. Harper, Idem, app. vii.

uncovered land "which is intended to be let or could be let with a covenant for immediate building." The concluding words are the best answer which has yet been suggested to that difficult question: what is "land ripe for building?" But it does not carry us far; let, at what rent? Undoubtedly it is a difficult thing to distinguish between land which is ripe for building and land which is only ripening. Mr. Harper says that we must trust the experts, and that no expert engaged in the preparation of a valuation list would be likely to include as building land any site as to which reasonable doubt existed. That may be so, but there are two very different conceptions of building land. Many people wish to rate land on a capital basis not only when it reaches its present ripe-for-building value, but *before* it reaches that value, which means including not indeed the whole of land in urban areas, but certainly a wide area of land. Their object is to cheapen land, and in justification they say that if land were cheaper more land would be built on; that land is held up out of the market after it is wanted for building, with the object of obtaining excessive and monopoly prices, and that in consequence the natural expansion of a town is prevented, the supply of houses restricted, and the people cramped and crowded.

If this charge were true a community would be justified in using every means in its power to protect itself, and the possible risk of inflicting hardship on a few individuals would weigh nothing in the balance. But where is the evidence?

The Minority Report of the Royal Commission on Local Taxation, which might be expected to make the most of the matter, contains one short reference. "It cannot be disputed that land is sometimes withheld from building, but on the whole, though it is very difficult to obtain

definite and exhaustive information, we are inclined to believe that merely speculative holding-up does not occur to any great extent or for very long periods. The cases in which speculation might appear to be the motive will often be found to be complicated by other and less simple considerations, *e.g.*, if an estate is being developed as a high-class residential neighbourhood, the owner often prefers to wait for a while for desirable tenants rather than grant leases for factories or small houses. Again, a large suburban garden is no doubt often preserved as a garden, when it might be cut up into building lots, as much for the sake of the amenity which it affords, and in order to avoid disturbance, as on account of the increase in the value which it will command in the building market hereafter."

The evidence given by the practical witnesses called to speak to the rating of land values certainly bears out this view. Most of them were land agents, valuers, and surveyors, and perhaps may be suspected of taking the landowner's point of view—though they were not all of them averse to the rating of land values provided a reasonable scheme could be produced. They admitted that land which might have been sold earlier for a cheaper class of houses was sometimes retained until it was ripe for a better class, but they contended that in the long run this benefitted the rates and the community, and they one and all declared that intentional and speculative holding up had never come within their experience. Indeed they stated emphatically that the tendency was all the other way, that land was too often forced into the building market before its time with results disastrous to the owner and builder and prejudicial to the whole neighbourhood.[1] At any rate the authors of the following

1. The evidence is collected in Mr. Wilson Fox's book *Rating of Land Values*, pp. 70—78.

passage cannot be suspected of a bias in favour of landlords. The Local Government and Taxation Committee of the London County Council reported in 1891: "We doubt first whether it is possible to force the land market by the indirect agency of rates upon landowners. It is the interest of landowners to bring their land into profitable occupation as quickly as they can; and it is especially the interest of the present possessors of land in settlement or in mortmain. There is no evidence that they do not follow that interest; some of them are only too hasty in doing so. Mr. Vigers tells us that London is overbuilt periodically every seven years. We doubt, secondly, whether if the land market could be artificially forced by a system of rating it would be found of advantage to Londoners, seeing that land would be covered which might have remained longer open, a number of houses would be built without certainty of occupants and would be built cheaply and flimsily, and would remain empty and would decay. Such a result would injure the neighbourhood and would not benefit the rates."[1]

I do not know whether this represents the opinion of the London County Council at the present time. Mr. Costelloe, who signed the above Report, contended before the Royal Commission on Local Taxation that some uncovered land should be assessed and rated on the basis of capital value. But the main object which Mr. Costelloe had in view was always revenue and the relief of the rates; he did not make much of a point of the holding up of land.

London seems to have reached, or to be about to reach in the near future, one of the "over-built" periods mentioned in the Report. There has been an enormous amount of building on the outside edge of London in the

1. London County Council Minutes, 3 Nov. 1891, p. 1084, paragraph 40; quoted by Mr. Remnant in the House of Commons, 14 April 1905.

last few years and the inner ring of suburbs are complaining loudly of empty houses. The effect of over-building is seen in the state of the land market: anyone who has followed the weekly returns of sales at the London Property Mart will have been struck by the very low prices which building estates in the London district have fetched recently.[1]

That there is over-crowding in large towns is only too true, but the census returns show that overcrowding does not necessarily imply a dearth of houses.[2] Overcrowding is very often due to the inability of the poorest class to pay even a minimum rent. A well-known worker among the poor of Manchester writes: "With so many wage earners at the war in South Africa there is considerable overcrowding in Manchester just now. Families are clubbing together and there a quite a plethora of cottages renting at from four to five shillings a week. In fact, it is safe to say that there has never been a dearth of comfortable cottages in Manchester and district during the busiest times."[3] The taxation of land will not help people

1. The history of the Park Royal Estate after its abandonment by the Royal Agricultural Society shows how low prices have been ruling. "The feature of the private treaty market has been the sale of Park Royal. When offered at the Mart in May by Messrs. Debenham Tewson and Co., no better bid than £24,500 could be elicited. The price now paid represents an advance of £4,000 on that figure; all told, barely the amount expended by the Royal Agricultural Society upon the site, and little enough in all conscience for 101 acres of building land within six miles of the Marble Arch." *Westminster Gazette*, June 15, 1906.

2. In the Census returns of 1901, out of a total of 6,709,784 houses in England and Wales, 259,795 are returned as empty. In the County of London, out of a total of 611,837 houses, 15,971 were empty. In the London Borough of Wandsworth, out of a total of 40,000 houses 1,732 were empty. In the working-class district of East Ham, out of a total of 18,477 houses 1,094 were empty. In Manchester, out of a total of 118,000 houses 4,000 were empty. There is nothing to show how many of these houses were unfit for habitation. The Report of the Royal Commission on London Traffic notes the curious fact that one-third of the tenants of the London County Council's dwellings remove every year. Many of them no doubt are obliged to do so in order to follow their work, but the fact implies the existence of a large margin of houses available for incoming tenants.

3. Mr. Charles Rowley. *A Workshop Paradise, and other Papers*, p. 130.

who are unable to pay a rent of four or five shillings a week, for if land were given away it would be impossible to build decent cottages complying with modern by-laws at a cost which would enable them to be let at less than four or five shillings a week. It is the cost of building far more than the cost of land which restricts the supply of cheap houses: the fraction of the total rent of a cottage or small house in the suburbs which represents the unimproved value of land is very small indeed—perhaps not more than eight or ten per cent., or say sixpence in a six-shilling house.[1]

No doubt in some instances land has been improperly withheld from use; but it is difficult to find evidence, and certainly no general case has been made out for imposing a heavy tax on a wide area of land simply for the purpose of forcing the land into the market. Even if urban land could be cheapened by this means,[2] there is very great doubt whether it is the true interest of occupiers that "the future" should be "discounted" and "the blighted harvest forestalled."

A moderate site value rate, on that limited area of land which could be let at once at a fair building rent, would be legitimate, for owners of building land

1. See a speech by Mr. Harold Cox against the second reading of the Land Values Taxation (Scotland) Bill, 1906. "He would take the case of a Housing Scheme near London, where the land cost £400 an acre, and the construction of the roads and sewers another £400. Seventeen houses per acre had been built on the land costing £300 apiece. Taking interest at 5 per cent. they would find that the total annual cost of the scheme worked out at £17. 7s. per house. The cost of each site was £1 3s. 6d. Therefore, supposing they got the land absolutely for nothing the whole saving would be £1. 3s. 6d. on each house. On the other hand, suppose they had their capital cheaper by one per cent., they would effect a saving of £3. 9s. 5d." Hansard, vol. cliv., p. 758; 23 March, 1906.

2. "The mere imposition of such a tax would tend to induce small owners to sell without delay, and land would then be thrown into the hands of a few large capitalists who would naturally endeavour to recoup themselves by raising the price of it when ripe for building." Mr. G. S. Matthews. Royal Commission in Local Taxation. Minutes of Evidence, vol. iv., app. vi. Compare experience in America p. 152 below.

would undoubtedly benefit by the impetus which a reduction in the general rates would give to building, and it might on occasions be very useful. But here we are met by the objection that it is highly undesirable that all land ripe for building should be built upon. In London the stock example of under-assessed building land is Holland Park. Mr. Harper told the Royal Commission on Local Taxation that the seventy acres of land which make up Holland Park could be let for building at a rent of £400 an acre, or £28,000 altogether, while the present assessment of Holland Park and House was only about £3,000. The real question is whether the people of London wish Holland Park to built on; if they do not, why tax it in such a way as to force it into the building market? If the owner of Holland Park is willing to forego an income of £28,000 a year, and thereby benefits the public, why should he be taxed on the basis of the income which he foregoes?

And what is true of Holland Park is true in some degree of all the large suburban gardens, with their orchards and paddocks; these pleasant places are disappearing only too rapidly, to the great regret of those who live near them, and sometimes to the permanent injury of the neighbourhood they once adorned. It has been suggested that such places should be exempted from the rate if their owners either undertook never to build on them, or allowed the public access to them. The first condition, however, is unreasonable, and the second might not be accepted. And how is it proposed to deal with Lords Cricket Ground, or with the Oval, or with the Crystal Palace Gardens, or with the Zoological Gardens, or with the equivalents of these places in other towns, or with the cricket fields, football grounds, tennis grounds and golf links in the suburbs? It is true that many of these open

spaces exist on sufferance, that the sword above them is suspended by a very slender thread; but they have a habit of living far longer than they are expected to do, and they are frequently preserved by purchase or dedication. Surely we ought to give them every chance of life.

And yet it would be very difficult to adopt a fancy scheme of exemptions, for we should not know where to stop; it would be hard, for instance, to exempt the pleasure garden of the rich man and to tax the market garden of his poorer neighbour. Moreover, any such scheme would be surrounded by practical difficulties. Take, for example, a suburban garden an acre or half an acre in extent: is this to be regarded as the site of the house which stands in the garden, or is it to be regarded as uncovered land? or is part of it to be regarded as uncovered land, and, if so, what part? We cannot allow ourselves to be faced with conundrums of this kind. Indeed it is quite clear that if a site value rate is imposed at all it must be extended to some garden land.

The problem is certainly a very difficult one. It is not easy to improve on the recommendation of the Minority Report, and I venture to suggest that if a site value rate of 1s. in the pound is imposed on the sites of buildings, it should be extended to all uncovered land which could be let at a fair rent with a covenant for immediate building. It must be left to experts to determine what land comes within this definition; but perhaps we might assist them by providing that the amount of uncovered land subject to the rate should never exceed such an amount as is likely to be built on in the next (say) ten years. It is always difficult to draw an arbitrary line, but no real injustice would be done, for land which just escaped the rate one year would fall a victim at the next valuation.

The rate as applied to uncovered land will produce very

little revenue. But it will make the bargain between the inhabitants of a town and the owners of building land a fairer one than it is at present, and it will put some pressure upon the owners of those pieces of waste land which so disfigure our suburbs to make better use of their land. In this way the rate may serve a very useful purpose, and yet it is not sufficiently heavy to be an intolerable burden on occupying-owners who wish to preserve their land from building for the sake of the amenity it affords. Moreover, although it seems impracticable to make express provision in the Act of Parliament for the exemption of any class of land, yet local authorities could be entrusted with discretionary power to exempt any land if in their opinion the public interest would be served by so doing. This might well be made the means of bargaining with landowners; that is to say, it might be made a condition of exempting a place like Holland Park that it should be thrown open to the public on certain days, and a condition of exempting a piece of waste land that it should be kept in order as a playground.

There remains the question whether a special rate on future increase of value should be extended to uncovered land. No one can deny that there is a strong case for taking the future unearned increase in the value of land ripening for building; and it is possible that this could be done by valuing the land now, valuing it again when built on, and then putting a rate on the increase of value so measured. It would be most convenient to collect the rate from occupiers and to allow them to deduct it from rents, and this method of collection would fall in best with other schemes for rating land values. However collected, the burden of the rate would fall on owners and on those owners who benefited by the unearned increment. The

difficulty raised in a former chapter, of dealing equitably with recent purchasers who had anticipated and paid for a future increase of value, could be overcome by allowing some years of grace before beginning to measure the increase. It should be noted that the basis of valuation would have to be capital value, and that this might involve choosing capital value as the basis of assessment for all separate rates on land, and also that it would be necessary to exempt from the rate any increase of value due to the making of roads or other capital improvements.[1] If this scheme were in operation it would in time yield a substantial revenue, but it would take nothing from an owner of land until his land was built on and was yielding an income. "While I admit," said Mr. Sabin, one of the professional witnesses before the Royal Commission on Local Taxation, "that to make an owner contribute by rate immediately he takes advantage of existing benefits, would not be unjust, I cannot admit that a rate should be laid for no benefit, in the expectation that in self-defence the owner would embark on a doubtful speculation, with a possibility of having erected houses that no one wanted, but in respect of which it is suggested by some that he should also pay rates." [2]

The last words refer to the proposal that vacant houses should be subject to the site value rates. It seems hard to put any additional burden on the shoulders of unfortunate owners who are unable to let their property, but there is no means of exempting them without opening a wide door

1. Mr. Henry, the City Assessor of Glasgow, suggests that "where an increase of rental is obtained from money spent on improvements, etc., on the property, an annual deduction of 7½ per cent. from such increase of rental should be allowed" before imposing the tax. Royal Commission on Local Taxation, Minutes of Evidence, vol. iii., app. xxv., p. 258. Does this mean that the deduction is to be 7½ per cent. on the money spent? A simpler plan would be to value the land both before and after the improvement was made, and to exempt the difference of value.

2. Royal Commission on Local Taxation, Minutes of Evidence, vol. iv., app. iii., p. 136.

to evasion. If vacant houses were exempted the owner of a valuable building site could evade the rate by running up such temporary structures as may be seen at present in the neighbourhood of the Strand improvement. In most cases the burden would be a very light one—in the case of a house in the suburbs it would not amount to more than three or four per cent. of the total rates payable in respect of the house;[1] and it is right that vacant houses should pay something for they entail some charge on the community. In the City of London vacant houses pay half the sewers rate.

The rating of land values will not of itself solve the housing problem or any other of the grave problems presented by the growth of great cities; but it will produce a revenue with the help of which a solution may be attempted. It would be exceeding my limits to discuss the question how far municipalities ought to engage in housing schemes, or the question whether the methods now being adopted by many cities in Germany would be practicable in this country, *i.e.*, the preparation in advance of a building plan for the future extension of a city and the purchase by the municipality of sufficient land to enable it to control the extension. But of this there can be no question, that if the separate assessment and rating of land values becomes an accomplished fact, it will be more than ever the duty of our municipalities to spend liberally on the provision of public parks. The separate assessment of land and the rating of uncovered land on its building value will tend to diminish the number of open spaces in private lands and will tend also to cause houses to be built still more closely together. It will be an imperative duty to counterbalance this tendency by providing public parks and open spaces on a generous scale.

1. Assuming the site value rate to be 1s. in the pound.

Municipal Councils inevitably make many mistakes and spend much money and incur huge debts for which succeeding generations get little or no return. But did a succeeding generation ever regret expenditure on the provision of a public park or open space? According to the Local Taxation Returns of 1903-04, the total amount spent in that year by local authorities in England and Wales on the maintenance of parks, recreation grounds and open spaces was £696,225, while the total outstanding loans under the same head is given as £7,911,422. So that altogether in maintenance, and interest on and repayment of capital, about one million of money is spent each year. The maintenance of public lunatic asylums costs nearly three millions.

London as a whole is in a fortunate position, thanks to the enlightened policy of the County Council[1] and to the public spirit shown by the City Corporation, and thanks also to the maintenance of the Royal parks by the nation; and London is especially fortunate in the amount of common land within reach. Yet even in London, in some districts south of the river you may walk for miles without finding a single open space except a disused churchyard. And many provincial cities are in a far worse case than London, for not only are their open spaces few and far apart, but (with some exceptions) they are small and not too well kept and maintain an unequal struggle with the smoke and grime without.

Our towns are with us for good or evil: of their swarming populations only a few will ever go back to the land: few at any rate will go back within a period to which we can look forward and for which we can provide.

1. The London County Council publish annually a most interesting note-book on the parks, gardens, recreation grounds, and open spaces of London, giving all relevant information and statistics.

If the ratepayers of to-day wish for the gratitude of those who come after them, they will spend generously on open spaces. One effect of the provision of parks should be especially noted—that it retains the wealthier classes in districts which otherwise would be given over to the poor. Whoever visits Battersea Park, or Victoria Park, Hackney, will notice the number of good houses, inhabited by well-to-do people, on land which, but for the existence of the parks, would be covered with mean streets and factories. The worst fate that could overtake urban England would be the complete separation of the people into cities of the rich and cities of the poor.

In the future it will be necessary to take still wider views. The wilderness of suburbs which encircles London is permanently divided at two or three points. Epping Forest on the North East, Richmond Park and Wimbledon Common on the South West, and in a lesser degree Hampstead Heath and its accessories on the North, form great barriers which are fast becoming islands: the tide of building is compelled to flow round them. If South East Lancashire is to save itself from gradually silting up into one enormous town it must create similar islands and barriers. Land if bought in bulk and with wise foresight is cheap, but its value to a city cannot be measured in money.

NOTES ON TAXATION OF LAND IN OTHER COUNTRIES

CHAPTER IX.

Notes on Taxation of Land in other Countries.

It is exceedingly difficult to understand and appreciate taxation in another country from description alone, even when the description is full and accurate. And it is especially difficult to compare a particular tax in one country with a particular tax in another country; not only should taxation in general in the two countries be compared, but account should be taken of differences in the economic and social conditions of the countries. The methods adopted by other nations in dealing with the problem of urban land are certainly of interest to us, but great caution should be observed in drawing inferences and comparisons.

New York.

In the United States of America, the State and local revenues are derived mainly from taxes on the capital value of real and personal property. In the City of New York the State, County and City taxes are collected together, and the tax-rate appears to vary in different years from $1·50 to $2 (and even more) per hundred dollars. The rate is the same for both real and personal property, but as personal property is very much under assessed, the main burden falls on real property. There are no other direct taxes except a death duty. The area of New York City is 209,218 acres, nearly three times the area of the County of London, and since the population is one million less than that of London, there must be a very large area of uncovered land within the boundaries of the City.[1] A tax of two dollars per hundred dollars capital value is equal to a tax of 13s. in the pound on three per cent. of capital value,

1. For the population, area and valuation of the five districts into which New York is divided, see p. 63 above.

and measured by our standards it seems an exceedingly heavy tax to place on uncovered land, particularly if the land has a considerable capital value and no immediate letting value. A similar tax is levied in almost every city in the United States. It is curious therefore to find reiterated in a recently published book on American cities by an American writer[1] the very complaint which we hear so often in this country: that vacant land is taxed too lightly and that in consequence it is held up by speculators.

Dr. Alfred Russell Wallace (at one time President of the Land Nationalisation Society), on his return from a visit to America in 1887, gave an address,[2] in which he expressed the opinion that taxation on capital values in the United States had actually encouraged speculation in land. He says: "The taxation on full [*i.e.* capital] values usually causes very rapid changes of ownership. Men buy land on speculation for the purpose of selling it again quickly. They will not hold it long, because if it is not used the taxes will eat it up. Then somebody else buys it and sells it again pretty quickly, and thus land is continually changing owners until it is used for occupation or cultivation or for building. But the result of this rapid change of ownership—of each person trying to make a profit—is that land very rapidly acquires in America a price as high as in old settled countries like England and very often even higher." He then goes on to remark on the fact that in the suburbs of American cities there are no gardens, that land is cut up into still smaller strips than in England, and that houses are built still more closely together. It would be curious indeed if the taxation of uncovered land on its

1. *The City the Hope of Democracy*, by Frederick C. Howe, 1906, Fisher Unwin, London. Mr. Howe is in favour of exempting personal property and buildings from taxation.

2. Afterwards published by the Society under the title "Land Lessons from America."

capital value were to have the effect of *raising* the price of land.

Paris.

Capital value has recently been adopted in Paris as the basis of assessment for a light additional tax on real property. A few years ago the octroi duties in Paris on "hygienic drinks"—beer, cider and wines—were abolished. In order to repair the breach in the revenue the town of Paris was authorised by the Law of 31st December, 1900, to impose certain other taxes in place of the remitted duties; and as it was evident that owners of real property in Paris had benefitted by the remission of the duties, two of the taxes authorised were new and additional taxes on land and buildings; a tax of 2 fr. 50 c. per cent. on the letting value of houses, shops, factories, etc. *(propriété bâtie)* and a tax of 50c. per cent. on the selling value of uncovered land *(propriété non bâtie)*. It is provided that these taxes shall be paid whether the property is occupied or not; and that uncovered land shall be re-valued every ten years.

The effect of the tax on the selling value of uncovered land is thus described in *Justice*, the organ of the Social Democratic Federation in this country:—"The taxation of land values is a favourite Radical panacea for political ills. We have frequently pointed out how little such a mere burden shifting measure could do for the working classes, and that it was of no practical importance to them. Under certain circumstances, however, it appears that the taxation of land values may actually become a real hardship to the common people. Recently the Municipality of Paris has decided to tax all land not built upon. The consequence has been what land-taxers would anticipate in such circumstances, that open spaces which were private

property, but which were enjoyed by the people of Paris, are now to become the spoil of the jerry-builder. M. de Franqueville, for instance, the President of the Academy, the proprietor of the exquisite park 'La Muette' with its historic fame, was noted that he would have to pay 80,000 francs taxation for it. He did the only thing in his power, and has ordered that it should be sold out in lots, as he could not pay £3,000 a year for such a luxury and freely offer his hospitality to the Parisians. . . ."[1]

Apparently the tax on uncovered land was found to be too heavy, for, by the Law of 10th July, 1902, the above-mentioned taxes were altered into a tax of 50 c. per cent. on the letting value of dwelling-houses and business property, and a tax of 10 c. per cent. on the selling value of *all* real property *(bâtie et non bâtie)*. Ten centimes per cent. of selling value is equivalent to a rate of about 7d. in the pound on three per cent. of selling value. There are other taxes upon the letting value of real property in Paris, but they are light compared with rates in this country.

Both in Paris and in New York land has been valued separately from buildings, but only for the purpose of obtaining a better assessment of the capital value of the whole of real property: there is no separate rate on land in either city.[2]

Prussia.

In 1893 local taxation in Prussia was entirely remodelled; the Government surrendered the State taxes on land and buildings, and the Communal Rates Act of that year permitted the communes to introduce special taxes

1. *Justice*, October 26, 1901.
2. See p. 63 above.

on real estate. The Act allowed the communes to make their own valuations, and provided that valuation might be based either—(1) On net yield or annual value, or (2) on the actual rents paid, or (3) on market value—*i.e.* capital or selling value. A special assessment of uncovered land which had increased in value through having been marked out with a building line, was permitted, but very little use has been made of this. The Act further provided that should a new assessment not be introduced then the taxes might be levied on the existing State assessments. In many cases the State assessments were of very old date, and in no way represented the present value of the property to which they related; but, in order to save trouble and expense, the majority of the communes preferred to adopt them.

In 1899 the Prussian Minister of the Interior issued a circular addressed to the communes pointing out that the State assessments were inadequate and urging the adoption of market value as the basis of assessment. The following is an extract from the circular and gives the substance of it.

"As regards land, the fixity of the State assessment which was based on what was once the income derived from it without regard to its present real value renders it impossible, especially in rapidly developing districts, sufficiently to utilise for rating purposes the continually increasing value of building sites. And it is clear that any reform which would raise these assessments would enable the communal authorities to diminish the assessments of owners of buildings who deserve more favourable treatment. It is true that section 27 (2) of the Communal Rates Act contained a provision enabling the communal authorities to levy an increased tax (building-site tax) on lands which had increased in value through having been

marked out with a building line,[1] but this provision has in practice been but little attended to, and it is desirable to introduce new regulations for communal taxation which, by requiring building sites to be assessed on their actual capital value at the time of assessment, would avoid many difficulties and effectively carry out the intention of the statutory provision referred to. For this purpose the standard of assessment should be the 'market value' of the land.

"Similar considerations lead us to the view that in the case of buildings also it is desirable that the communal assessments should depart to a far greater extent than has up to this been the case from the State assessments, and that in the new regulations 'market value' should in all suitable cases be substituted for 'annual value' as the standard of assessment. The 'annual value,' which in the State assessments has been arrived at by taking an average over a preceding period of 15, or, at the least, 10 years, is not a suitable measure of value in the case of large towns or rapidly developing suburbs or communes with a large working-class population. Apart from the fact that it leaves out of consideration the rapid alteration of values which occur in such communes, it presses unduly on owners who are obliged to demand a higher rent than is justified by the capital value of the property. Experience teaches us that this is especially the case in buildings let out in small tenements for the working classes, as there is a relatively very much more rapid depreciation of capital

1. The expression "land marked out with a building line" has reference to the German system of preparing in advance a plan for the extension of a town. The tax referred to was tried in Berlin but was abandoned owing (1) to the difficulty of distinguishing a rise in value due to the building line from a rise in value due to other causes, (2) to a decision of the Courts which excluded from the operation of the ordinance all streets constructed before the street line law of 1875. See Mr. Robert C. Brooks' article "Berlin's Tax Problem" in the *Political Science Quarterly*, December 1905.

in the case of these buildings, and the insecurity and irregularity of the receipts force the owner to compensate himself by raising the rents."

The word " buildings " as used in the circular does not mean buildings separated from land, but includes all the land (not exceeding a certain area) attached to a building.

In 1904 the Government issued a second circular,[1] stating that practical experience had confirmed the view expressed in the former document, and giving a list of the communes which had adopted market value as the standard of assessment together with an elaborate table showing how different classes of property had been affected. The list contains the names of 53 country communes and of 71 towns, including Stettin, Breslau, Magdeburg, Kiel, Dortmund, Wiesbaden, Coblenz, Cologne, Düsseldorf, Essen and the Berlin suburbs of Charlottenburg and Spandau.[2] It was found that the adoption of market value in place of letting value as the basis of assessment had the effect of increasing the assessments of large business houses and the better class of dwelling-houses and of decreasing the assessments of small property; that the assessments of building sites were multiplied many times over, in some cases as much as fifty times, and that the assessment of " agricultural or garden land, some of which has a certain building site value," was increased very considerably. In one town, the name of which is not given, it was found that the proportion of local taxation borne by uncovered land was increased from 3 per cent. to 36½ per cent., which led to a corresponding diminution of the proportion borne by buildings from 97 per cent. to

1. Both circulars have been translated into English and published as a Parliamentary Paper, House of Commons Papers, 1906, No. 173.

2. In the city of Berlin itself, letting value is still the standard of assessment, but a resolution in favour of adopting market value as the standard was carried by a large majority in the Berlin Council in 1904.

63½ per cent. These figures are certainly very remarkable, and I should imagine quite exceptional.

The memorandum is silent as to the tax-rate in the various towns, but as the communes raise only about one-third of their revenue by the tax on land and buildings (the remainder being derived chiefly from the income-tax and the tax on trade) the rate is never very high. In Berlin the annual rate on the letting value of real property in 1904 was 5·8 per cent., or 1s. 2d. in the pound. In Frankfort-on-the-Main, the rate on property built is four per cent. of letting value, and the rate on uncovered land is 2M. per 1,000M. of capital value. The rate in Düsseldorf is 2M. per 1,000M. of the capital value of all real property. The rate in Cologne is 2·16M. per 1,000M. (equivalent to ½d. in the pound) of the capital value of all real property. Even these light rates when placed on the capital value of agricultural land seem to have caused some misgivings, for the memorandum of 1904 says: "Should further experience show, however, that a uniform 'market value' assessment of all land in the commune leads to an excessive burden being imposed on this class of land, provision could be made in the regulations by which agricultural or garden land could, if required by the local conditions of the commune, be taxed only on a proportionate part of its market value." There is no mention in the memoranda of a separate valuation of land apart from buildings, and, so far as I am aware, there is no separate assessment and rating of land values in any town in Germany.

Attempts, however, are being made to tax future unearned increment without a separate valuation of land. In Berlin, and in Cologne and Frankfort and other towns, a tax or duty of one or two per cent. is charged on the transfer of real property by sale. A few years ago Frankfort developed this system in the following manner:

Whenever two sales of the same property occur within a short period of time (within five years, in the case of land built on; within ten years in the case of uncovered land) a special graduated tax (payable by the vendor) is imposed on the increase of value which has accrued in the interval between the two sales. An increment of less than 30 per cent. is exempt. But when the increment is between 30 and 35 per cent. a tax of 5 per cent. is imposed; when the increment is between 35 and 40 per cent. the tax is 6 per cent.; and so on, the tax rising by 1 per cent. for each additional 5 per cent. of increment. *But all capital expenditure on the land in the interval is exempted.* In Cologne a similar and more severe tax has been in force since July, 1905; the tax commences at 10 per cent. when the increment is between 10 and 20 per cent., but rises less rapidly than in Frankfort. The full tax is charged only when two sales occur within five years; if the sales are more than five but not more than ten years apart two-thirds of the tax is charged; if the sales are more than ten years apart only one-third of the tax is charged. The Council of Berlin is proposing to introduce a tax of a like nature.

This may be an excellent method of taxing increase in the value of uncovered land, especially if the land is rising rapidly in value. It must certainly discourage speculators who buy land with the intention of selling it again in a few years at an enhanced price. But it does not seem a suitable method of taxing the increase of value of covered land when sales occur only at long intervals. For example: a site is bought for £10,000, and £15,000 is spent in building; eighty years afterwards the property is sold for £25,000; at the latter date the building is worn out and only fit to be pulled down, so that the £25,000 represents the value of the bare site. The true increase in

site value in this example is £15,000. But the increase as measured in Cologne would be apparently, £25,000, less the £10,000 originally paid for the site, less the £15,000 spent in building, that is nothing at all.

For many of the above facts I am indebted to the courtesy of the municipal authorities of Frankfort, Cologne and Düsseldorf.

Taxation and Rating of Land Values in Australia and New Zealand.

In New Zealand the Land and Income Assessment Act, 1891, imposed a State tax of 1d. in the pound on the unimproved capital value of land, *i.e.* on the selling value of land separated from the value of buildings or other improvements. This is called the ordinary tax on land, and, subject to certain exceptions, it is payable on all land in the Colony whether built on or not. Land in possession of natives is treated specially, and out of consideration for small peasant farmers plots worth less than £500 are exempted, and plots worth less than £1,500 are allowed an abatement. In addition to the ordinary land tax, the same Act imposed a graduated State tax on large estates, commencing at $^1/_{16}$th of a penny in the pound on land of an unimproved value of £5,000 and rising to threepence in the pound on land of an unimproved value of £210,000 or more.[1] Incomes derived from land are exempt from income tax, and in so far as land is mortgaged the tax is paid by the mortgagee: the land tax is really *part of* the general income-tax.

Before 1896 local rates were levied on land and buildings, the basis of assessment in some places being the annual letting value of property and in other places the capital value of property. In 1896, however, the Rating

1. The graduated tax is paid by every one who owns land of a value of £5,000 or more, whether the land is in one piece or in many. The owner of the fee simple pays the land tax in the first instance, but he is entitled to claim contributions from owners of other interests in the land.

on Unimproved Value Act was passed authorising local authorities to lay the general rates (certain special rates being excepted) on the unimproved capital value of land. The excepted rates to which the Act does not apply are water rates, gas rates, electric light rates, sewage rates, and hospital and charitable-aid rates. The adoption of the Act is optional, and before it is adopted a resolution must be submitted to the ratepayers and a poll must be taken. At the end of March, 1906, 75 polls had been taken, the proposal being carried in 63 districts (including Wellington and Christchurch) and lost in 12 districts. In two cases a poll was taken on a proposal to revert to the old system, the proposal being lost in each case.

The following figures relating to Wellington, and its suburbs, Onslow, Kakori and Melrose (the latter of which is now incorporated in Wellington), are taken from the New Zealand Official Year Book of 1904.

	Population.	Area in acres.	Capital value of land and improvements.	Unimproved value of land.	Rate in the pound on the Unimproved value of land.
			£	£	
Wellington...	45,419	1,100	11,802,759	6,913,234	about 2½d.
Onslow.....	1,500	2,870	288,347	147,847	,, ,,
Kakori.....	1,250	5,127	344,771	211,413	,, ,,
Melrose.....	4,295	3,962	1,081,313	752,988	,, ,,

The rates are divided in the Official Year Book into general, special, separate, water and library rates, and as regards some of them the basis of assessment is not quite clear; but the total rates assessed on the unimproved value of land appear to be about 2½d. in the pound on capital value, and in addition there are light rates (including the water rate) amounting to rather more than 1s. in the pound on the letting value of real property. General rates are paid by occupiers, but if there is no occupier the rates on the unimproved value of land are payable by the owner, and are a charge on the land.

The value of land in the town of Wellington has more than doubled in the last thirteen years,[1] and has now reached an average of over £6,000 an acre, which seems extraordinarily high for such a small place. No town in this country of similar population and area will have anything like so high an average. But allowance must be made for the difference in the value of money: wages in New Zealand are nearly twice as high as they are here, and prices may be correspondingly high. Moreover, the rate of interest in New Zealand will be higher than it is here, and this must be borne in mind when considering a rate on capital value. If the annual rent of land is six per cent. of its capital value a rate of 2½d. in the pound on capital value is equivalent to a rate of only 3s. 6d. on annual value. It would appear therefore that the burden of rates on land which is built on and is earning a good income, may be less in Wellington than it is in our own towns, although in Wellington the whole of the general rates are imposed on land alone, while in our towns they are imposed both on land and buildings. But the burden of rates on uncovered building sites and agricultural land will be considerably heavier than it is with us; for example, a rate of 2½d. in the pound on building land worth £200 an acre amounts to about £2 per acre, whereas our rates on similar land being based on the rent actually obtained amount only to a few shillings per acre.

The recently published Parliamentary Paper relative to the "Working of the Taxation of the Unimproved Value of Land in New Zealand, New South Wales and South Australia,"[2] contains a digest of reports from local authorities in those districts of New Zealand which have

1. In the valuation of 1891, the capital value of land and improvements was assessed at £5,865,778, and the unimproved value of land was assessed at £3,440,182.

2. 1906 [Cd. 3191].

adopted the Rating on Unimproved Value Act. It is to be observed that most of the districts (whether Boroughs or County Districts) have very small populations (rarely exceeding 5,000), and that in many districts the Act has not been in force long enough to enable the local authority to express an opinion upon it. The Commissioner of Taxes, in summarising the Reports, writes that the effect of adopting the Act has been to induce owners of urban and suburban land to put their land to the best possible use and to compel owners of vacant plots to build or to sell for building, with the result that a "great impetus" has been given to the building trade, particularly in Wellington, which is being rapidly re-built; that the new system has had some effect in reducing rents and discouraging speculation in land, but that in some cases a rapid increase in land value has caused speculation in spite of the tax.

The following are the official digests of several of the least favourable of the Reports, these being selected as most likely to throw light on the weak points of the system:

Invercargill Borough (population 7,299). Difficult to say how system works—depends on how it affects the individual. Presses heavily when a good business site is occupied by a small dwelling. A poll on proposal to revert to old system resulted in majority voting for continuance of present system.

Normandy Town Board (population 384). Township mostly agricultural land, and complaints made that rates fall heavily on these lands as compared with township residences, hotels, etc.

Stratford Borough Council (population 2,127). Reply unfavourable; system acts unfairly; tends to crowding of houses on small sections. Value of land reduced 10 to

15 per cent. Land speculation ceased. No remarkable increase in building trade. Rents lower.

Stratford County Council (population 5,911). System in force four years. Bears most onerously upon owners who acquired land for *bonâ fide* occupation purposes.

Woolston Borough (population 2,891). A suburb of Christchurch; contains a good deal of land occupied by orchards, market gardening, dairying, etc., and tax presses heavily on these. Three properties cut up and sold and several buildings erected. Building trade improving. Rentals not lower. Tendency unquestionably to cut up into allotments for sale.

Of the two large towns which have adopted the Act, Wellington and Christchurch; the Report from Wellington is very favourable, but suggests that restrictions are necessary to prevent overcrowding of buildings; the Report from Christchurch is that the Council have not sufficient data to enable them to express an opinion.

The Government Valution of Land Act, 1896, defines "unimproved value" as follows: "The unimproved value of any piece of land means the sum which the owner's estate or interest therein, if unencumbered by any mortgage or other charge thereon, and if no improvements existed on that particular piece of land, might be expected to realise at the time of valuation if offered for sale on such reasonable terms and conditions as a *bonâ fide* seller might be expected to require." The valuation is made by Government officials, and is conclusive for both State and local purposes.

Queensland is, I believe, the only other State in which land is assessed and rated for local purposes separately from buildings. The system of rating in Brisbane is almost identical with that in Wellington, and the rate in the pound is about the same.

In South Australia and New South Wales local rates are at present assessed on the letting value of land and buildings.[1] In both Colonies, however, there is a State tax on the unimproved capital value of land, forming part of a general income-tax. In South Australia the tax was first imposed by the Taxation Act, 1884. The ordinary tax rate in 1906 was ½d. in the pound, but owners who own land of a total value exceeding £5,000 are charged an additional ½d. for every pound exceeding £5,000. Absentee owners—*i.e.*, owners who live permanently out of Australia—are taxed at a still higher rate. The graduation of the land tax in a rough way follows the graduation of the income-tax, but was introduced also with the object of breaking up large estates in the country.

In New South Wales the land tax was imposed by the Land and Income Assessment Act, 1895. The tax rate is 1d. in the pound, and the only graduation is an exemption (or deduction) of the first £240. In both Colonies the tax is paid in the first instance by the owner of the fee simple, but all mortgages are deducted, and the owner who pays the tax is entitled to contribution according to a fixed scale from owners of other interests in possession. In New South Wales the deduction of the first £240 is apparently allowed to every owner of an interest in the same piece of land, but no owner is allowed to deduct more than £240 altogether, however many plots of land he may own.

These taxes are of great interest to us, because in many respects they are similar to the new rate on site values proposed in this country, and because they are levied in the cities of Adelaide and Sidney, and, judged by rateable value, Sidney claims to be the second city in

1. South Australia, so far back as 1893, passed a permissive Act, authorising rating on the unimproved value of land, but no authority has yet adopted the Act. In New South Wales a Bill with the same object is now before the legislature.

the Empire. There is little information as to the method of assessing unimproved value in Sidney, and there is reason to suspect that the assessment is not made with the accuracy we should require in this country. All owners are required to make returns of the description, situation and value of their land, but the assessors are not bound by these returns. In 1903–04 the total capital of Sidney and suburbs was £96,171,600, of which £39,791,400 represented the unimproved value of land.[1]

The Tax Commissioners report that the taxes have had the expected effect, though the effect has not been very pronounced either in Sidney or in Adelaide. Speculation in land has been discouraged, vacant sites have been sold more freely, building in the suburbs has been stimulated and rents in the centre of the towns have been reduced by the competition of the new buildings. No doubt, as the Commissioners say, it is very difficult to distinguish the effect produced by the taxes from the effects produced by other causes; particularly in view of the great depreciation of property throughout Australia which followed the financial crisis and bank reconstructions of 1893. The annual value of real property in Sidney in 1893 was £6,067,882; in 1898 it had fallen to £4,965,400, and in 1903 had risen again to £5,669,670.[2] A small tax on land could not possibly have produced such results.

It must be borne in mind that both in South Australia and in New South Wales, and in New Zealand also, and State tax on land is part of a general income-tax. Real property is divided into unimproved value of land, and value of improvements. The value of improvements is subject to income-tax; the unimproved value of land is exempt from income-tax, but is subject to land tax.

1. *A Statistical Account of Australia and New Zealand*, 1903–04, by T. A. Coghlan: published by authority of the Government of New South Wales and of the Commonwealth of Australia, p. 760.
2. *Idem*, p. 759.

APPENDIX

APPENDIX I.

LAND VALUES ASSESSMENT AND RATING.

A

BILL

To provide for the separate Assessment and Rating of Land Values.

Presented by Dr. Macnamara. Supported by Mr. John Burns, Mr. Dillon, Mr. Charles Douglas, Mr. Emmott, Mr. Fenwick, Mr. Lloyd-George, Mr. Robson, Mr. Trevelyan, and Mr. J. H. Whitley.

Ordered, by The House of Commons, to be Printed, 20 February 1903.

MEMORANDUM.

This Bill is framed with the object of providing local authorities in urban areas with a new source of revenue in relief of the present rates, and so diminishing the existing burdens on building enterprise. With this object the Bill directs urban land values to be separately assessed and gives to local authorities power, which they may exercise if they think fit, to levy a land value rate throughout their areas. The rate is to be levied on the capital value of all land, whether occupied or not, as distinct from the value of any buildings or structures on the land. The rate is to be payable generally by the persons at present liable to pay rates, but special provision is made for the case of buildings containing several parts separately occupied, and also for the case of unoccupied property. With regard to tenancies created after the commencement of the Act, it is provided that a tenant who pays land value rate may

deduct from his rent the amount of the land value rate calculated on the land value as it was when that rent was fixed. No such deduction is permitted under existing tenancies. The total amount of the new rate in any year is limited to one penny in the pound on the land value.

A

BILL

TO

Provide for the separate Assessment and Rating of Land Values.

Be it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1.—(1) In areas to which this Act applies local authorities shall have power to raise money for local expenditure by means of rates made and levied in respect of the land values of hereditaments in their areas (in this Act called land value rates).

(2) The land value of a hereditament means the price for which the hereditament could be sold, as by a willing seller to a willing buyer, if it were freehold in possession, and if there were no building or structure thereon.

(3) The areas to which this Act applies are the administrative county of London, boroughs other than the metropolitan boroughs, and urban districts.

(4) The local authorities for the purposes of this Act are in London the County Council, in a borough the borough council, in an urban district the district council.

2.—(1) In every valuation list prepared for poor law purposes within an area to which this Act applies, the

overseers or other persons who prepare the valuation list shall insert in a separate column the land value of each separate hereditament.

(2) All enactments which relate to the correction of valuation lists and to appeals from valuations, shall apply with regard to land values in like manner as with regard to other values in the list, provided that any person by whom land value rate is payable shall have the same rights of objection and appeal as an occupier has with regard to poor rate.

3.—(1) In London the County Council shall have the same powers of making, levying, and collecting the land value rate as metropolitan borough councils have in respect of the general rate, or so near thereto as the nature of the case admits, and all enactments relating to the general rate shall apply accordingly.

(2) In a borough the borough council shall have the same powers of making, levying, and collecting the land value rate as they have in the case of the borough rate, or so near thereto as the nature of the case admits, and all enactments relating to the borough rate shall apply accordingly.

(3) In an urban district the district council shall have the same powers of making, levying, and collecting the land value rate as they have in the case of the general district rate, or so near thereto as the nature of the case admits, and all enactments relating to the general district rate shall apply accordingly.

4.—A land value rate shall not in any financial year exceed *one penny* in the pound on the land value.

5.—(1) A land value rate shall be payable as follows:—

(*a*) Where a hereditament is in a single occupation, by the person liable to pay the poor rate:

(*b*) Where a hereditament includes a building containing two or more parts in respect of which different persons are liable to pay poor rate, by the persons first entitled to possession of the whole hereditament subject to existing tenancies:

(*c*) Where a hereditament is unoccupied, by the person entitled to immediate possession thereof.

(2) Where the person liable in any year to pay the land value rate in respect of any hereditament is not ascertained, the amount of such land value rate shall be deemed to be arrears charged on the hereditament, and until the arrears are paid any person subsequently liable to pay land value rate in respect of that hereditament shall be liable to pay the arrears.

6.—The following provisions shall apply only with regard to rent payable under a lease or agreement for a lease made after the passing of this Act:—

(1) Where a person who pays a land value rate in respect of any hereditament is liable to pay rent in respect thereof, he shall be entitled to deduct from the rent next falling due the amount of the land value rate calculated on the land value at the time when the rent was fixed, provided that he shall not be entitled so to deduct more than he pays in respect of land value rate:

(2) Where a person receives rent from which a deduction has been made under the foregoing subsection, and is himself liable to pay rent in respect of the same hereditament to another person, he shall be entitled to deduct from the rent next falling due from him the amount of the land value rate on the land value at the time when the

rent which he is liable to pay was fixed, provided that he shall not be entitled so to deduct more than the amount of land value rate which is deducted from the rent which he receives:

(3) A deduction authorised under this section shall be equivalent to payment of rent to the same amount:

(4) Any agreement inconsistent with the provisions of this section shall be so far void.

7.—This Act shall not apply to Scotland or Ireland.

8.—(1) This Act shall come into operation on the *first day of January one thousand nine hundred and four.*

(2) This Act may be cited as the Land Values Assessment and Rating Act, 1903.

APPENDIX II.

LAND VALUES ASSESSMENT AND RATING.

A

BILL

To provide for the separate Assessment and Rating of Land Values.

Presented by Sir John Brunner. Supported by Mr. Trevelyan, Mr. Bell, Mr. Charles Douglas, Mr. William Jones, Mr. Lloyd-George, Mr. M'Crae, Dr. Macnamara, Sir Albert Rollit, Mr. J. H. Whitley, and Mr. Watson Rutherford.

Ordered, by The House of Commons, to be Printed, 17 February 1905.

MEMORANDUM.

It is provided by this Bill that all valuation lists on which local rates are based shall contain a separate assessment of the land values of rateable premises. The land value is to be taken to be an amount equal to 3 per cent. on the selling value of the land as distinct from the building. In the case of unoccupied premises the land value alone is to be subject to rating. In any case where the land value of premises exceeds the present rateable value, which may happen where land ripe for building is not used for building or very poor buildings are allowed to stand on valuable sites, rates are to be paid on the land value. Under any lease made after the Bill becomes law, it is proposed that the occupier shall be entitled to deduct from his rent so much of any rate as is based on the amount of the land value. But there is to be no interference with existing contracts between landlord and tenant. It is also proposed that deductions made from the gross value for the purpose of arriving at the rateable value shall be made on the value of the buildings only, and not on the land value. The Bill applies only to London and boroughs and urban districts of England and Wales.

A

BILL

TO

Provide for the separate Assessment and Rating of Land Values.

Be it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1.—(1) Every valuation list shall, in case of every hereditament as defined by this Act, contain in a separate column an assessment of the annual value of the land comprised therein (herein-after called the land value).

(2) For the purposes of this Act, the annual value of land shall be deemed to be an amount equal to *three* per cent. of the amount for which the land could be sold as by a willing seller to a willing buyer.

(3) In estimating the amount for which land could be sold, as aforesaid, regard shall be had to any restriction upon the use of the land imposed by law, or by any deed other than a lease relating thereto, but otherwise the land shall be deemed to be held in fee simple, free from encumbrances: Provided that, in case of land held under a lease existing at the passing of this Act, a fair allowance shall be made for the restriction on the use of the land during the unexpired period of the lease.

(4) Where the land value of any hereditament exceeds the rateable value of the hereditament, ascertained according to the law in force before the passing of this Act, the land value shall be deemed to be the rateable value of the hereditament for all purposes to which the valuation list is applicable.

2.—(1) Every rate the proceeds of which are applicable to any public local purpose shall be payable in respect of unoccupied hereditaments as well as in respect of occupied hereditaments.

(2) In case of an unoccupied hereditament the rate shall be payable by the person entitled to immediate possession thereof.

(3) In case of an unoccupied hereditament comprising a building or buildings as well as land, the rate shall be payable on the land value only.

3.—Where an occupier of a hereditament holds it under a lease or agreement made after the passing of this Act, he shall, notwithstanding any agreement to the contrary, be entitled to deduct from rent payable by him so much of any rate paid by him, in respect of the hereditament, as is payable on the land value as assessed at the time of the making of the lease or agreement.

4.—Where several tenements separately rateable are comprised within a single building, this Act shall apply as if each tenement were a hereditament as defined by this Act, but so that the land value shall be apportioned among the several tenements.

5.—(1) In case of a hereditament comprising a building or buildings as well as land, the amount to be deducted from the gross value, or gross estimated rental, in order to arrive at the rateable value, shall be calculated with reference to the gross value of the building or buildings only, and section fifty-two of the Valuation (Metropolis) Act, 1869, and the Third Schedule of that Act shall apply accordingly to the gross value of the building or buildings only.

(2) For the purposes of this section, the gross value of the building or buildings shall be deemed to be gross value, or gross estimated rental, of the hereditament, after deducting therefrom the land value.

6.—The London County Council or any city borough or urban district council may, if they think fit, resolve that this Act shall not apply to any park or pleasure ground or other open space within their area which is vested, either in perpetuity or for a term not less than twenty-one years, in a local authority or in trustees for the benefit of the public, and any such resolution shall have effect accordingly.

7.—Nothing in this Act contained shall be taken to deprive any hereditament of the benefit of any exemption, in whole or in part, to which such hereditament is now by virtue of any general or local Act of Parliament entitled, from any poor rate or other rate which by law is required to be based upon the poor rate, or to render liable to be rated according to the annual rateable value thereof any hereditament which under any local Act or otherwise is entitled to be rated on a fixed amount, or according to any special or exceptional principle of valuation or assessment, whether such hereditament shall or shall not be included in any valuation list or in any valuation made for the purpose of raising any local rate.

8.—For the purpose of giving effect to this Act, the Local Government Board may by order make such regulations as they think proper for applying and adapting any statutory form or procedure with regard to the making of valuation lists or the levying of rates.

9.—In this Act, unless the context otherwise requires—

The expression "hereditament" means a rateable hereditament consisting of or comprising land;

The expression "land" means surface land as distinct from the building (if any) erected thereon;

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